

# **ARMENIA ENTERPRISE ACCOUNTING REFORM**

## **FINAL REPORT**

December 2000

***Prepared by:***

Sibley International

2121 K Street, NW

Suite 210

Washington, DC 20037 USA

Tel: 202.833.9588

Fax: 202.775.9416

Prepared for: USAID/Armenia





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Submitted by  
**Sibley International**  
Author: Ross Tyler

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Project Manager	Ross Tyler
USAID CTO	Bill Lawrence
USAID Project Officer	Michael Greene John Irons
Chiefs of Party	Wayne West Harry Maltby
<u>Implementation Team Leaders</u>	
Enterprise Conversions (Financial)	Susan Fenno
Enterprise Conversions (Managerial)	Duncan Williamson
Public Education Specialist	Alan Mattern
IAS Training Specialist	Robert Reed
ACCA Training Specialist	Robert McGee Liam Coughlin
SRO Advisor	Robert Reed
Association Development Specialist	Bill Easton
IAS Training Specialist	Laszlo Urmenyhazi
Audit Training Specialist	Richard Coonradt
Curriculum Reform	Iris Smith
Tax Advisor	Edward Koos
Auditor	Charles Canfield
Subcontractors	CARANA Corporation, East/West Management Institute

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## **Executive Summary**

SIBLEY International Corporation, based in Washington, D.C., successfully implemented the Armenia Enterprise Accounting Reform Project (AEAR) in accordance with the United States Agency for International Development (USAID) Contract EPE-I-00-95-00078-00, Task Order No. 04 from July 6, 1998, to October 31, 2000. The Project Team worked closely with the Armenian Ministry of Finance (MoF), Ministry of Economy, Ministry of Energy, Ministry of Privatization, the Central Bank, and the Office of the Prime Minister, as well as professional accounts and audits personnel, in effectively integrating international accounting and auditing standards throughout the country. With Sibley International as the prime contractor, the other Team members included CARANA Corporation and East/West Management as subcontractors.

The Project achieved the overall goal of forming market economy accounting and auditing systems in Armenia and having enterprises produce adequate accounting information for effective use by all the necessary consumers (i.e., users) of financial information, such as managers, owners, investors, lenders, tax authorities, and regulators.

When the Project started in July 1998, Armenia was still using the old Soviet methodology for accounting and auditing systems. No work had been conducted to convert to International Accounting Standards (IAS) or International Standards of Auditing (ISA). Three competing accounting/auditing associations existed and the MoF controlled all accounting and auditing in country. USAID and other donors had undertaken very little economic reform at that point, but then USAID's five major economic reform programs started simultaneously: Accounting, Banking, Tax, Capital Markets Establishment and Privatization, and Land.

### **Goals Achieved**

The Project Team completed seven major tasks by providing intervening assistance and working with many varied entities, from government, educational, and professional institutions to private enterprises, local media, and individual citizens. The outcomes of the seven tasks have had immediate impact on reforming accounting and auditing practices in Armenia, including greater financial transparency, and these early improvements will help spur further reforms and the country's economic development.

Below are highlights of the Project's initial impact and the expected impact. (For more details and/or statistics, please see the body of the report or the appendices. See also Appendix A – Tangible Results.)

### **Initial Impact**

- The Association of Accountants and Auditors of Armenia (AAAA), an internationally and nationally recognized and respected organization, has been established as an

independent, self-sustaining, self-regulating organization (SRO) and will continue with developing the accounting and auditing profession to ensure that Armenian practitioners meet international standards and recognition.

- Armenian accountants are now trained using the AAAA's Training, Testing, Certification Program (TTCP), which is developed from materials acquired through the internationally recognized Association of Chartered Certified Accountants (ACCA), a professional organization from the United Kingdom.
- Armenian academic institutions are developing new curricula based on IAS and ISA to ensure that future generations of accountants are trained to meet the needs of the Armenian economic market.
- Armenia has fully adopted the use of IAS, as well as a new Chart of Accounts. The new Armenian Accounting Standards (AAS) were adopted without making any changes.
- The Minister of Finance has committed to train auditors for maintaining ISA through the adoption of a new audit law.
- The Project facilitated a partnership between the Government of Armenia (GoA) and the private sector, resulting in 1) the GoA committing to transfer authority and responsibility to the AAAA for standards of development and maintenance and training, testing, and certification of accountants, and 2) the MoF authorizing the AAAA to develop the Armenian Audit Standards for the MoF review and approval.
- The Tax Reconciliation Form has helped established an effective link between enterprises converted to IAS and the Armenian tax inspectorate.
- Through a public education program and several courses, users of financial information were educated in understanding and utilizing IAS-based accounting information. For example, thirty-six (36) 12-hour introductory courses were conducted for non-accountants; 775 users attended eighteen (18) 40-hour courses on financial and management accounting; and 125 staff of the Armenian tax inspectorate participated in a customized course for their specialty.
- The Project trained 1,854 accountants and auditors, including 134 tax inspectors, in the methodology for converting enterprises to IAS accounting.
- A critical mass has been reached in the number of enterprises having undergone financial conversions to IAS. A total of 1,056 enterprises were converted (427 non-OJSCs; 629 OJSCs). Benefits of this financial transparency include the following:
  - Assisting capital market development and the Armenian national economy as a whole;
  - Help with accessing loans and other credit vehicles;
  - Attracting direct foreign investment.

- Twenty-seven (27) Armenian enterprises received direct assistance from the Project Team about the importance of cost accounting, increasing their chances of survival and preparing for growth.
- Audit firms now have the capacity to perform audits using internationally accepted practices.
- Twenty (20) Armenian audit companies can now provide financial conversions to the remaining OJSCs and help bring them into compliance with the law. Audit companies have gained business tools to become stronger and financially self-sustaining providers of business services.
- A number of public information programs and strategies were developed for the general public and market participants to increase awareness and understanding of the economic reforms, including seminars for journalists, surveys, television programs, media events, and publications. The Project trained and assisted the AAAA's communications manager in implementing these programs, and he now works independently on communications and information issues.

### **Expected Impact**

- Future expectations are that the MoF will request financial conversions for state-owned enterprises. This progressive step could expedite the privatization process.
- Modern accounting practices could stimulate further changes in the legal and regulatory framework—specifically tax law.
- The reforms will improve corporate governance, increasing investor confidence in Armenia.
- Encouraging the growth of capital markets, entrepreneurship, and Armenia's participation in the global economy is enhanced, given that enterprise managers and owners can make business decisions using IAS-based financial information.
- Transparency of the new accounting and auditing practices is a strategic step for the government toward regaining the public's confidence.

### **Words of Praise**

The U.S. Ambassador to Armenia, Michael Lemmon, attended the ACCA Award Ceremony in March 1999. He and Prime Minister Armen Darbinian spoke to the ACCA training participants who were receiving their certificates at the ceremony. Besides recognizing each individual's achievement, the event was noteworthy for being the first public event that marked the importance of the reforms underway. In his speech, the

Ambassador noted several times how an open, transparent, regulated financial system is fundamental to Armenia's economic development, and he had many words of praise for the students there and the success of the partnership among the United States, the Republic of Armenia (RoA), the AAAA, and the educational institutions of both countries:

"These courses will benefit you while you help Armenia. With the successful completion of the economic reforms will come a more attractive investment climate, so there will be more and more investor interest in Armenia. Increased capital investment will bring a great increase in demand

for people like you, who have taken ACCA certification courses and possess the accounting, auditing, and financial skills that investors seek. You students can benefit Armenia with your mere presence as skilled local financial technicians....

The United States is committed to Armenia's free market success. We will continue to work with the Armenian government and private sector organizations, such as the AAAA, to

encourage a growing, healthy economy. We can only assist, as it is up to you—the people of Armenia—to decide what vision you have for your country. You students are indeed the future of Armenian business."



**Armenian Prime Minister Armen Darbinian (left) and U.S. Ambassador Michael Lemmon listen to other speakers at the ACCA Award Ceremony in March 1999.**



## **I. Background and Objectives**

Armenia declared its independence from the collapsing Soviet Union on Sept. 23, 1991. In the years that followed, Armenia fought neighboring Azerbaijan for control of the Nagorno-Karabakh region. A cease-fire agreement was reached between the two countries in 1994, but the fate of Nagorno-Karabakh remains unresolved.

The collapse of the Soviet Union and war with neighboring Azerbaijan—plus a devastating earthquake in 1988 that killed thousands and created havoc—left the country's economy in desperate need of assistance for reform and revitalization.

The Government of Armenia (GoA) in the mid-1990s took a series of major steps forward in its efforts to create a market economy, including wide-ranging initiatives for securities market development and tax, fiscal, legal, regulatory, land privatization, and accounting reforms. These initiatives were significant for their breadth and complexity and have received assistance from USAID and its appointed contractors.

The Armenia Enterprise Accounting Reform Project, which was introduced to develop market-oriented accounting practices, has played an essential role in meeting USAID's strategic objective for the region in developing private-sector enterprises. Accounting is a fundamental tool for any economy. Arguably, the collapse of the Soviet economy was the direct result of an inadequate and inaccurate Soviet accounting methodology that was incapable of measuring the degeneration of the economy. In a market economy, accounting and auditing of financial information are important guides to capital flows and provide the basis for measuring and maximizing enterprise efficiency and profitability.

When the Project started, it faced an accounting system in Armenia still based on a Soviet statutory framework that had many deficiencies, with the Ministry of Finance at the center of both financial reporting and tax administration. There was limited demand for market-based accounting, and the importance of sound financial information was little understood among enterprise managers, investors, and shareholders.

Auditing was driven by tax requirements, and the professional bodies remained focused largely on their roles as set during the Soviet era. Market-based accounting skills were rare, and the academic community was only beginning to realize that major curricular changes were necessary.

### **Objectives**

Acknowledging these historical, political, educational, and professional conditions in Armenia and recognizing Objective 1.3 (to accelerate development and growth of private enterprises) from the Europe and New Independent States (ENI) overall program, the Armenia Enterprise Accounting Reform Project was implemented to achieve the following objectives:

**1. To form an independent, self-sustaining Accounting and Auditing Professional Association to function as a self-regulating organization (SRO) with capacity for the following:**

- a. To provide a technical and institutional basis whereby accountants and auditors, in collaboration with relevant GoA institutions, can improve the legal and regulatory framework.
- b. To start the development and assessment of financial accounting and managerial accounting conversion methodologies through pilot enterprise implementations.
- c. To pioneer the development of professional capacity in accounting and auditing by:
  1. Establishing a Training, Testing, Certification Program (TTCP) for accountants and auditors;
  2. Collaborating with educational institutions and the Ministry of Education to develop curriculum reform and a faculty development program;
  3. Developing a program for promoting business skills of accountants and auditors related to marketing services.
- d. To represent the accounting and audit professions through outreach to market participants and advocacy to public authorities.

**2. To have enterprise accounting systems provide adequate and appropriate financial information to accounting stakeholders**, such as regulatory bodies, shareholders, investors, lenders, tax authorities, and managers.

**3. To disseminate accounting information from enterprises to users of financial data** in a market economy in order to effectively use adequate and appropriate accounting information in decision making.

**The Benefits**

The Project met these objectives by completing seven major tasks, and a detailed accounting of this work appears in the next section of this report. Introducing market-oriented accounting practices in Armenia has benefited a wide range of users of financial information. Enterprise managers have been enabled to start improving their decision-making skills, for example, and businesses have been assisted to enhance efficient allocation of resources, thereby improving profitability where possible. Also, skilled accounting and auditing professionals will serve to attract investors. Capital investors require a clear picture of an enterprise's financial well being in order to make informed decisions. As other economic improvements occur in Armenia, the results of this Project will also encourage investors to act.

## **II. Tasks 1–7 and Results**

### **Task 1.**

#### **Development of Institutional Capacity for an Accounting and Auditing Professional Association (AAPA) that is an independent, self-sustaining, Self-Regulating Organization (SRO).**

A fundamental building block of accounting reform is the establishment of an independent professional association of accountants and auditors that ultimately has the collective ability, authority, and responsibility to act in the public interest. The “professionalism” of existing, top-tier accounting and auditing bodies worldwide has been founded on the trust that their members earned from the users of their services. Greater public trust is displayed when governments bestow on the associations regulatory or semi-regulatory authority, such as the establishment and maintenance of accounting and auditing standards.

A desired outcome of the Project was the establishment of such an independent, self-regulating association. The goal was that this SRO would develop and retain the capacity to sufficiently establish its credibility (and its members’ credibility) to provide effective and responsible leadership in the accounting reform process.

During the Project, the Association of Accountants and Auditors of Armenia (AAAA) formed as the professions’ SRO, and with its high-quality and successful TTCP, it shows exceptional promise of becoming completely self-sufficient within the next few years. Further, the AAAA has quickly become a model for other SROs in Armenia and the

Commonwealth of Independent States (CIS).

#### **Testimonial**

Sushan Gulkhasian, a marketing manager for Link, an Armenian accounting software development company, writes:

“The training in new chart of accounts help us to make modifications in our software. The accounting reform changes the requirements of accountants and the managers. So we have to make the modifications to keep our customers happy. During 1999 and 2000 we receive a lot of consulting assistance from Sibley specialists which helped us to develop our software. The accounting reform increased the awareness of accountants and managers in computerized use of accounting, which increased the number of our customers. However, there are some areas that we will need more assistance and development. In our list of customers we have a lot of Joint-venture companies with foreign investments. They still lack unification in reporting, that brings some difficulties for our programmers. I think, more deep training is needed in application of Armenian Accounting Standards and preparation of Financial Statements.”

This new professional body of accountants and auditors emerged on October 12, 1998, when two existing professional organizations, the Republican Chamber of Auditor’s Association and the Union of Certified Accountants, agreed to unite. The constitution for the new body was developed from guidance promulgated by the highly respected International Federation of Accountants (IFAC), and the AAAA was formally established when the constitution was ratified at a general meeting on March 6, 1999 (see Appendix B – AAAA

Constitution). The Ministry of Justice subsequently recognized the constitution on April 20, 1999 (Decree # 659).

The Project worked closely with the AAAA to assist in establishing and emulating international best practices. This assistance concentrated on four key areas:

### **1. Establishment of a sound governance and committee structure.**

A council was formed at a general meeting of members. Subsequently a chief executive was appointed, along with a small staff complement. Election and operating procedures, a policy manual, and a mission statement were adopted in the context of achieving eventual accreditation with the IFAC.

The council determined and approved a committee structure on November 13, 1999, again based on IFAC guidance. The committees included tax, financial auditing, financial accounting, managerial accounting, training, public education, and membership; after terms of references were established, committee members were appointed with staff support. Committees created work plans and began meeting actively from February 2000. (See Appendix C – AAAA Organizational Structure.)

The AAAA prepared a business plan and the council adopted it for the period 2000 through 2002 (see Appendix D – AAAA Business Plan for 2000 – 2002). Branch offices were established in Gyumri and Vanadzor, and directors were appointed. Monthly financial reports have been produced since June 2000.

Application for full membership into IFAC was made on August 18, 2000, and nominating support for full membership was received from the Georgian Federation of Accountants and Auditors and the Conseil Supérieur De L'Ordre Experts Comptables (France) in October 2000.

### **2. Establishment of a code of ethics and rules of professional conduct with enforcement mechanisms in order to protect the public interest.**

A code of ethics, based on the IFAC Code of Ethics, was translated and adopted by the council in July 2000. Adoption of rules of professional conduct became mandatory in the form of continuing education requirements. Enforcement mechanisms were not exercised but disciplinary procedures were put in place.

### **3. Establishment of a certification and training model based on international best practices.**

In June 2000, the AAAA council adopted a certification model based on the United Nations (UN) Global Accountancy Curriculum and supported by ACCA-based materials. (See Task 2 for more details on this program.)

#### **4. Development leading to sustainability.**

A two-year business plan was developed in template form, allowing it to be updated every six months. The business plan includes a financial plan that focuses on a time frame for the AAAA's overall commercial viability and financial sustainability, and it addresses issues such as projected revenue-generating activities, including dues, publications, training, and certification; projected staff, equipment, supplies, materials, and other expenditure needs; and proposed support for staff and equipment.

The AAAA's revenue-raising activities consist of its training, limited publications, and membership fees, with the fees from the ACCA-based TTCP training providing the greatest income. Monthly periodicals and newsletters have been prepared, but licensing laws prohibit the AAAA from publishing and distributing the materials. To overcome

this, the AAAA is investigating establishing a separate entity for publishing purposes. However, membership goals stood ahead of target, with 521 dues-paying members at the time of IFAC application. The membership programs have been targeting segments of the accounting and audit profession, including enterprise practitioners; firms of accounting, audit and consulting professionals; bank accountants; government accountants; and academics.

In other matters, the AAAA documented its plan for developing regional chapters and establishing equipped training facilities in accordance with its business plan. Also, an assessment was made of the AAAA's ability to meet conditions for sound financial management of USAID grant awards, and steps to implement the recommendations were in progress by the end of the Project.

An active public information program was established with a fully trained communications manager whose responsibilities include enhancing the status of the AAAA. In addition, this position is to sustain the public's and government's awareness and understanding of the AAAA's functions and purposes.

#### **Case Study: Tomato Paste Manufacturer**

Karmir Lolic is an OJSC that processes and bottles tomato paste in Yerevan, Armenia. The Project spent seven days touring its factory, interviewing staff, researching the manufacturing process, collecting data, and, eventually, preparing an analysis for the company's benefit. At the end of this direct-assistance task, the Project designed and set up a product costing system on a spreadsheet that calculates the following average costs:

- Per department or function;
- Per year, per month, and per day;
- Per product per unit.

Karmir Lolic is now able to prepare accurate standard cost cards/sheets for a department and for a product that tell in detail the direct material and labor costs for each product, together with the detail of all overhead costs. These data and analyses were not possible under the old accounting methods. Karmir Lolic can now prepare the following:

- Weekly and monthly cost reports;
- Standard cost variance analysis reports;
- Weekly, monthly, and annual budgets.

The role of IAS in these analyses is no small matter. Besides measuring its own financial health, Karmir Lolic has positioned itself for making managerial decisions based on data that meet IAS requirements. Also, investors may find Karmir Lolic more attractive because internationally recognized standards formed the foundation for this review.

The AAAA participated in one (informal) Caucasus SRO meeting and plans to participate in a Eurasia Federation council meeting in December 2000, thereby maintaining its regional presence and remaining current of regional developments.

### **The Future for AAAA**

The AAAA gained the recognition and respect of government departments that historically have regulated accounting and auditing. This respect is demonstrated by the willingness of the government to acknowledge the AAAA's capability in assisting with the standard-setting process, as well as by its ability to provide leadership in training, certification, education, and curriculum reform.

Provided that the AAAA continues to act in the public interest, there are indications that the GoA is willing to formally and irrevocably transfer many aspects of accounting and auditing regulation to the AAAA.

Without doubt, this Project achieved the stated USAID objectives and deliverables in forming and giving guidance in the development of AAAA. However, as the AAAA remains in its infancy, it is likely to require limited financial and focused technical support to ensure its viability.

## **Task 2.**

### **Development and implementation of a training and testing program for the Association of Accountants and Auditors of Armenia (AAAA).**

Immediately after the Project started, the TTCP was established with standards defined by IFAC and the UN. This took place prior to the formation of AAAA in order that the SRO would ultimately gain maximum momentum in the shortest time. This specific approach was adopted to achieve the following:

- Quickly raise the TTCP profile using the international reputation of ACCA training;
- Build capacity of skilled local-language trainers to provide courses;
- Create an income stream to help the newly formed SRO become financially self-sustaining;
- Improve local knowledge of IAS.

Appropriately, the professional association (AAAA), once formed, performed the training and testing and used the testing as a basis for providing its members a certification model.

### **Specific Training Programs**

Two programs were established and remain as courses offered by the AAAA:

- English Language – The English language ACCA program was successfully introduced into the Armenian accounting community. This internationally recognized program expeditiously injected well-developed materials that are acknowledged by the UN as matching the quality and content of their global accounting curriculum. The early qualified, English-speaking students quickly provided a pool of knowledgeable Armenian accountants to perform other accounting reform tasks and to provide teachers for the local-language courses. It should be noted that participant successes in the ACCA program paralleled—and in some cases exceeded—that of other international participants.
- Local Language – The AAAA local-language certification program is modeled after the ACCA program. With the assistance of the Academy for Educational Development (AED), the ACCA texts and problem manuals were directly translated into Russian, thus providing the highest quality content for the training materials. Country-specific topics, such as tax and local law, were designed and prepared in Armenian.

The two programs provided a cost-effective way of eliminating the need to have expatriates develop individual training programs and materials (See Appendix E – Training Materials/Publications). The accessibility and popularity of the two programs

were greatly assisted by the Student Support Initiative, which was instated to ensure that highly capable candidates were afforded the opportunity to participate in the training regardless of their ability to pay. This Project, in conjunction with AED, devised this Initiative, as it provided several advantages over other approaches; these advantages include the following:

- The AAAA could charge students a fair market price for the course, thereby allowing the AAAA to become financially independent at a sooner date.
- The Initiative indicated to the student the value of the training, as each student was billed at full cost, with the students of lower earnings receiving greater support than those of higher earnings.
- USAID and the AAAA could maintain the pricing structure while reducing students' financial assistance over time, which is strategically easier than increasing prices at a later date.
- USAID or other donors had the ability to focus their financial resources on only those students needing financial assistance. The Initiative required all students to submit a financial support request form, which the committee reviewed. Decisions were based upon the needs of the student, with recipients receiving financial support ranging from 90% to zero. As the economy improves, the amount needed for financial support is expected to decrease.
- The Initiative provided student incentives, as students who did not take a scheduled examination or failed the examination were automatically unable to receive further support. With this mechanism in place, only those students who passed their examinations for the first courses continued to receive financial support. This filter ensured that financial support went only to the needy and serious students.

As a result of these programs, the AAAA implemented the first internationally recognized TTCP in the CIS. This program provides Armenian accountants and auditors the skills necessary to implement international accounting and auditing standards. The resulting large cadre of trained professional accountants and auditors—with more than 1,000 students having participated in the TTCP programs when the Project finished—will assist in attracting both domestic and international investment and provide local enterprises the financial skills to become competitive domestically and internationally.

### **Training Beyond the Accountants – Auditors and Other ‘Users’**

The AAAA's educational role was expanded beyond its own members to embrace the larger community of users of accounting information, including managers, investors, shareholders, and creditors. This provided the Armenian business community an understanding of the emerging global economy and Armenia's role within it.



First, the Project identified and started satisfying the need to provide a wider range of accounting and auditing courses to auditors. In this case, a more focused training program was developed and delivered by the Project on behalf of the AAAA. This training



**Aram Gevorgian acknowledges the AAAA after being named top ACCA student at the ceremony.**

simulated how an audit was conducted utilizing international standards (IAS and ISA). On September 5, 2000, the last series of instructional seminars, titled “Audit Engagement Practices Course,” was completed using “The Noah Brewing Company” audit case study developed in April 2000. The case study consisted of student text (245 pages), many solutions (145 pages), and representative examination questions (25).

The Project enrolled 110 students and distributed a total of 82 certificates of completion. The course proved to be popular, and the original materials were refined before being given to the AAAA

for future offerings. Anticipating that some of the successful course participants would eventually teach the course to others, the Project facilitated a brief seminar based on training-of-trainers and provided additional material and guidance notes.

Another training audience included business owners, investors, government tax inspectors, and accountants/bookkeepers of companies seeking to publicly list on the proposed capital market exchange. Training was also provided as part of the mass-conversion exercise, which resulted in more than 1,056 Armenian enterprises being introduced to IAS and converting their bookkeeping and financial reporting systems to the new Armenian accounting requirements. In addition, some senior personnel within those enterprises received training in cost and management accounting to assist them in developing better business information. These last efforts were directed toward developing general business skills and understanding the value of management/cost accounting as a decision-making tool.

### **The AAAA Role in Retaining Good Training**

Toward the end of this Project, the AAAA developed policies and procedures through its Education and Certification Committee to ensure the rigor and integrity of the assessment processes. The application of these policies and procedures is expected to continue, thereby retaining the credibility and reputation of AAAA’s training and certification program.

### **Task 3.**

#### **Educational Reform Development**

The Project recognized the importance of updating educational elements within accounting that could keep pace with the sweeping reforms materializing from the core project components that were directed to immediate users of financial information. The Project aimed to ensure that future graduates had the requisite and theoretical foundation to match the understanding and skills needed for integration and further enhancement of Armenia's economic growth.

To facilitate curriculum reform, the Project engaged two of Armenia's accredited institutions, the Yerevan Institute of Economy and the Armenian Agricultural Academy, both of which provide the most comprehensive accounting programs. After securing the MoF's support, the Project obtained agreements from each institution to implement the following:

1. To immediately change the content of courses offered in introductory accounting;
2. To provide long-term refinements by aligning the curriculums with the following:
  - Recent regulatory reforms to accounting in Armenia;
  - IFAC's International Education Guideline #9;
  - UN's Global Accountancy Curriculum;
  - AAAA's Certification Model.

Specific educational reforms achievements include:

- The translation of the UN's Global Accountancy Curriculum into Armenian;
- ACCA Papers were compared and matched to specific modules in the UN curriculum;
- The correlation of expected pass rate was made to the expected number of student enrollees.

Both the Russian and Armenian translations were provided to senior faculty members, who were then shown the stages of implementation. These stages included:

- How each institution would make the required changes;
- How support and consensus should be gained from the remaining faculty;
- How immediate changes could be introduced;
- How plans for introducing the full reform over the longer term were to be adopted;
- How AAAA could assist in implementing the curriculum through a syllabus modeled from ACCA.

### **Positive Enforcement for the Professors**

In June 2000, the institutions signed a Memorandum of Understanding (MoU) called “Curriculum Reform Implementation Understanding” (see Appendix F). Then senior faculty from both institutions attended workshops to develop a comprehensive Implementation Plan for bringing the ACCA Papers into their curriculum (see Appendix G – Integration of ACCA Papers into Armenian Degree Programs). The Plan covered:

- Deciding the start date of each paper;
- Determining each paper’s objectives;
- Providing the learning outcomes of each paper;
- Selecting the professor responsible for implementation and gaining his/her signature.

An ACCA training-of-trainers seminar was delivered in London, U.K., to three professors from the Yerevan Institute of Economy and two from the Armenian Agriculture Academy, all of who were committed to curriculum reform. The seminar was designed to prepare the attendees for teaching ACCA Papers 1 and 3, as well as to introduce further papers and pending changes to the curriculum. This activity was organized by Sibley International/AED and used the opportunity to simultaneously include university professors from Georgia and Azerbaijan. This Transcaucasus cooperation supports USAID strategy for the region and should be encouraged with additional activities (see Recommendations section in this report).

By early September 2000—in time for first-term courses—both the Yerevan Institute of Economy and the Armenian Agricultural Academy amended their curriculums for introductory accounting courses. Further, on October 6, 2000, both institutions signed expressions of interest “...to commence procedures leading to Partnership arrangements with the London College of Accountancy and the University of Essex ...” The university partnerships were initiated to maintain the long-term support, development, and accuracy of the Armenian accounting curriculum.

#### **Task 4.**

##### **Assist the Republic of Armenia in the adoption of IAS and ISA, and other issues concerning the role of the Government of Armenia in accounting and audit reform and development.**

Originally this task—for Armenian JSCs to adopt IAS and ISA—was thought to require a strategy based on a MoU that would have been negotiated and signed by the U.S. Embassy, USAID, the World Bank, the AAPA, and the cognizant GoA entities. Instead, USAID and the Project agreed that a MoU was not necessary because of the perceived cooperation of the government. Therefore, the Project proceeded upon oral agreements from the stakeholders, and by the end of the Project, Armenia was one of only three republics in the CIS to have fully adopted IAS (Georgia and Kyrgyzstan being the other two).

The Project developed a schedule for the IAS adoption and worked initially with the MoF, and later the AAAA, to ensure that the correct mechanism and support were in place for the full understanding of each standard.

#### **Chart of Accounts**

The adoption of a new Armenian Chart of Accounts and related instructions were part of the IAS adoption plan. The Project led the MoF in modifying the Chart of Accounts and the instruction manual, but it took the duration of the entire Project in order to complete this task. However, as the MoF wanted to wait until all standards had been completed and issued before legally adopting a new Chart of Accounts and instructions, the converted enterprises were allowed and did use the draft version of the Chart of Accounts; this permitted the conversions to proceed on schedule.

#### **Tax Reconciliation Form**

The Project also facilitated the adoption of the IAS by assisting the MoF and Ministry of Revenue to develop and adopt a Tax Reconciliation Form. This new form adjusts IAS-based income to taxable income and therefore allows enterprises to eliminate the old Soviet-based accounting. With the Tax Reconciliation Form, the IAS becomes the basis for tax accounting for those enterprises adopting IAS, and enterprises are allowed to use only IAS-based accounting.

#### **Public – Private Enterprises**

The Project sought to facilitate the formation of a partnership between the public and private sector to effect accounting and audit reform in Armenia. The original Task Order states, “...only collaboration and coordination among these groups will lead to the

optimal mix of technical integrity and utility, administrative and compliance burden and protection of public interest.” The Project, therefore, assisted the Accounting Methodology Department (AMD) at the MoF in successfully translating, interpreting, and adopting IAS and ISA.

This balance between the government and private sector proved a most effective and efficient method of implementing IAS/ISA-based accounting and auditing. The GoA accepted that national accounting and auditing standards must be in full compliance with IAS/ISA. It also recognized and accepted that it makes little difference who “takes ownership” of accounting/auditing standards, and with continued confidence in the AAAA, the GoA gave oral commitment to transfer authority and responsibility to the AAAA for standards development. Further, it is highly probable that the AAAA formally will be given this responsibility and become a true SRO, i.e., also be responsible for maintaining the standards, as well as the training, testing, and certification of accountants.

### **Public-Sector Accounting**

Supporting this move to transfer self-regulating authority to the private sector is the government’s desire to implement a program to introduce international standards for its own accounting and auditing. While the Project was expected to assist the MoF in adopting and implementing public-sector accounting and audit standards and practices,

the MoF refused to embark on this reform component during the term of the Project.

#### **Testimonial**

Armentel provides telecommunications and is one of the largest CJSCs in Armenia with foreign investments. The company participated in the pilot conversion, with the chief accountant and deputies receiving training in core AAS standards. The chief accountant, Jirair Papoyan, writes:

“The implementation of new chart of accounts was not so difficult. As the conversion for CJSCs are mandatory in 2001, at the end of 2000 we will start to convert. As our company is very big, it will take at least a month to complete the conversion. In addition we have to make modifications in our software. Of course there will be some difficulties, as it will overlap with tax return deadlines, but I think we will overcome. The training in AAS was very helpful and productive. We start to understand a lot of issues in consolidation, that we saw before done by our Greek investors, but cannot understand how. However, I think, we need more deep knowledge of AAS and their application in preparing Financial Statements.”

Practically, the government did not have and remains without the resources to regulate both private-sector and governmental accounting and auditing. Therefore, before it undertakes a program to bring governmental accounting and auditing up to international standards, it must fully relieve itself of the burden from these private-sector tasks.

#### **Upper-Tier OJSCs For the Stock Exchange**

The Project was expected to assist the AAAA and the SEC (the securities oversight body in the MoF) in developing comprehensive financial disclosure and assurance-testing requirements. The requirements were for each of the four listing tiers, including a highest tier with

complete disclosure in compliance with IAS and assurance testing in compliance with ISA. However, this activity continually had to be postponed as the RoA and the USAID/PWC Capital Markets Project did not have a capital markets law approved by the Armenian Parliament until the end of the Project.

### **International Auditing Standards**

The Project, together with the AAAA and the MoF, was well underway in completing the adoption of Armenian Audit Standards that are in full compliance with ISA, having developed a schedule and drafting an audit law to implement them. The new audit law is expected to pass in calendar year 2000 and make ISA mandatory in Armenia before the end of the year.

### **Transferring Responsibility to the AAAA**

At the end of the Project, the MoF retained the technical authority to develop IAS and ISA. However, the MoF agreed to transfer in the near future the responsibility of remaining current with IAS to the AAAA. Practically the authority shifted to the private sector, demonstrated by the MoF authorizing the AAAA to develop the Armenian Audit Standards for the MoF review and approval.

The Project's initiatives in legal regulatory areas of accounting reform are complete, allowing enterprises to establish sound financial reporting and allowing management to make changes regarding the survival and profitability of enterprises. These new business tools will impact employment and the general economy of the country.

## **Task 5.**

### **Improve accounting information awareness and utilization on the part of all users of accounting information.**

To accelerate the simultaneous acceptance and the demand for accounting reform, a public education program was developed to increase awareness and disseminate information to users of accounting information. Through education and demonstrated practical application of financial information, the perceived “utility”—and therefore value—of financial information was enhanced.

It is important to realize that with the acceptance of IAS/ISA through regulated financial reporting, the accounting reform process can be considered only half complete. IAS/ISA-based financial information will help enterprises attain credit or investments, which in itself is a valid goal, however, users of this new financial information must be trained for making rational business decisions that make a positive impact on the general economy at the national level.

### **Courses for Non-Accountants**

The assistance to 27 enterprises in establishing sound cost accounting systems, described in Task 6 below, was highly publicized. In addition, a four-tier approach was established to train non-accountants in understanding and using the IAS-based financial information. These tiers consisted of the following:

- A 12-hour introductory course.
- A 40-hour detailed course.
- A course with four 45-hour modules (university-level courses) for non-accountants based upon ACCA’s Certified Diploma in Accounting and Finance. Topics for the four modules covered financial accounting, cost accounting, managerial finance, and business analysis.
- A special conversion course for tax inspectors that consisted of a modified conversion course for enterprise accountants with an emphasis on the new Tax Reconciliation Form. This course also introduced the tax inspectors to the new Armenian Accounting Standards (AAS) and the methodology used to assist enterprises in converting to the new Chart of Accounts. (Armenia adopted IAS by law without any adaptations and named them AAS.)

### **Courses Delivered**

The Project’s deliverables exceeded the goals of this task, and the results of different courses are summarized below:

- Thirty-six 12-hour courses for non-accountants, in such fields as agro-business and capital markets, were conducted to a total of 128 participants.
- Eighteen 40-hour courses on financial and management accounting were held. In fact, the total number of successful course participants amounted to 775.
- 125 staff of the Armenian tax inspectorate successfully completed the course for tax inspectors and learned the application of the new Tax Reconciliation Form.

All courses were developed within the Project but were delivered by the AAAA. By the end of the Project, the course materials, as well as the capacity for continuing the course activities, had been fully installed into the AAAA.

### **Publications**

The public education program successfully published four articles in pertinent monthly publications: two in *Economy and Law* and two in *The Economist*. Each described managerial accounting and finance issues.



**Robert McGee, Sibley training team leader, teaches accountants and auditors at the Institute of National Economy.**



**Task 6.****Development of professional capacity and technical methodologies for enterprise conversion through pilot implementations.**

The initial stages of the Project called for pilot implementation with selected enterprises regarding bookkeeping and accounting methodologies based on IAS. The objective was to develop the technical methodologies and professional expertise for wider-reaching implementation in anticipation of the RoA adopting IAS. In addition, the development of managerial accounting methodologies to enterprise owners and managers was an objective for improving enterprise performance.

**Full Enterprise Conversion Versus ‘Mass’ Conversion**

Between writing the Task Order and the start of implementation, USAID refined its enterprise conversion strategy to primarily reflect the outcome of the Almaty meeting in April 1998. Rather than focusing on extensive and complete conversion work, including components of budgeting with only a small number of enterprises, the accepted best practice was to follow the Kazakhstan model of “mass” conversions. This entailed spending three to five days training enterprise accountants and a further three to five days assisting each enterprise to convert to an IAS-based Chart of Accounts, rather than spending several months converting all the financial components of a single enterprise. The latter approach allowed the conversion of about only 50 enterprises during an entire task order, and this approach for Armenia was superseded with instructions to implement accrual accounting and international standards within hundreds of enterprises.

The approach for mass conversions sought to gain a “critical mass” of enterprises striving to meet IAS, even at the risk of a slightly less-than-perfect basis. The concurrent IAS-based training programs available from the professional TTCP were the vehicle to give the enterprise accountants the supplementary knowledge they needed for higher-quality conversions.

The primary activities involved the Project working within Armenian enterprises to illustrate and develop the conversion methodologies for financial and managerial accounting. This approach later served as a basis for training in financial auditing, and the pilot enterprises provided the Armenian accounting and audit consultants valuable experience in supplying business services to established enterprises.

**Building Capacity for Mass Conversions**

The first six months of the Project were devoted to training-of-trainers seminars, which quickly built up the capacity of the Project Team. The conversion training course and manual, along with 15 IAS and a transitional Chart of Accounts, were developed and assembled to start enterprise financial conversions on January 1, 1999.

In the first month of the Project, six pilot enterprises were selected, and in the following three months, with the support of visiting Kazakh specialists from the USAID/CARANA project, the pilot enterprises were converted to the new system. By the end of January 1999, a new Chart of Accounts and the core of 15 AAS were adopted by the GoA, which allowed the Project to develop a conversion methodology training course for accountants and auditors.

### **Dovetailing Mass Conversions with that Allowed by Law**

The receptiveness of enterprises to participate in the mass financial conversion process was linked to the subsequent adoption of an accounting law in Armenia. This law required all OJSCs to keep their accounts in conformance with AAS by January 1, 2001. Enterprise preparation for January 1, 2001, accelerated the need for mobilizing wide-scale adoption of a new bookkeeping/accounting methodology in these enterprises.

With a GoA decree, enterprises were allowed to adopt IAS-based accounting on a voluntary basis during the 1999 calendar year. Based on Amendment #7 to Resolution 740, all enterprises willing to convert to the new system were allowed to do so. Mass conversions started March 1999, using auditors from 15 audit firms. The auditors had been trained by the Project Team and started to convert their clients with the Project Team's assistance. In December 1999, the GoA made changes to the plans for mass conversions. Resolution 729, dated December 2, 1999, brought conversions into force in phases and detailed the following timetable:

- Starting from January 1, 2000, the application of the new system became mandatory only for OJSCs;
- 2001 – for Closed Joint Stock Companies (CJSCs);
- 2002 – for all other types of the companies.

The MoF allowed only voluntary conversions during 1999. Therefore, the Project could not direct its efforts solely on OJSCs until January 1, 2000. Starting from December 1999, the Project focused its efforts on OJSCs, and by the beginning of year 2000, the process was turned over entirely to the private sector, with mass conversions of OJSCs conducted solely by local audit firms.

### **The Tangible Outcomes**

Detailed statistics showing the Project's deliverables, which exceeded the goals of this task, are shown in Appendix H (Summary of Financial Conversions); however, the main outcomes are summarized as follows:

- 1,056 enterprises converted (427 non-OJSCs; 629 OJSCs). Of the 1,056 conversions, 873 were performed by local audit/accounting firms using local accountants and auditors trained in conversion methodology.

- 1,854 accountants and auditors (including 134 tax inspectors) participated in conversion-methodology training. From these participants, 125 tax inspectors were trained in AAS, and 450 accountants and auditors received a training in core AAS.
- Twenty-seven (27) enterprises participated in cost conversion.

## **Task 7.**

### **Constituency mobilization for accounting reform issues and other economic reform programs.**

Public awareness is instrumental in any reform process. The Project used regional community relations and grass-roots efforts at the organization level to reach enterprise managers, bookkeepers, accountants and auditors, political and community leaders, the media, local associations, and the general public with a forthright presentation of the rewards, risks, and options of the accounting reform. The importance of utilizing financial information was expressed throughout.

As economic reform directly affects every Armenian citizen, the Public Information (PI) personnel of the Project coordinated the public explanation of the reform process. Assistance was given to the four other USAID economic reform projects through different media, such as a daily digest; a newsletter covering all projects; broadcast productions; and a network of Armenian journalists. The PI personnel also managed the logistics of important events while simultaneously ensuring broad media coverage.

### **Seminars**

To raise awareness, increase understanding, and build support for the adoption of economic reform measures, the PI team followed the strategy of educating and informing key stakeholders. The team built and engaged proactive allies and supporters among key opinion leaders and influential citizens at national and regional levels, including the media, the private sector, the National Assembly, the GoA, enterprise managers, accountants, and academics. One approach was to use national and regional outreach activities and seminars.

First, seminars were organized in conjunction with AED to introduce journalists to the importance of economic reform. The seminars helped the

#### **Case Study: Roofing Tile Manufacturer**

The Project's cost-accounting review of Armfarfor, a roofing tile manufacturer in Artashat, Armenia, discovered two major problems. First, the product cost information had been underreported in a number of areas. Knowing the true cost per square meter of its tile, Armfarfor now can evaluate its manufacturing and administrative processes and make managerial decisions about possible revisions.

Second, the review revealed that Armfarfor was allocating all its overheads on only 10% of its sales, thus finding its prices were not competitive. The Project helped the company reallocate overhead and develop a more competitive price.

The Project's ten days of direct assistance to Armfarfor included fact-finding tours of the factory, interviews with staff, and several days of poring over the company's financial information. Armfarfor, an OJSC, most likely will reap other benefits from this IAS-based evaluation beyond the Project's two major conclusions. If the company follows the Project's recommendations for additional training in cost accounting and spreadsheets, Armfarfor may be destined to have a solid roof over its head.

journalists to build up the local capacity for recording and reporting on economic issues. In turn, these better-informed journalists became economic journalists who were more capable of accurately describing Armenia's economic situation. Press kits were compiled to assure an easy flow of news to media outlets and other interested parties. The press kits contained updated information on topical issues, such as the newly adopted accounting standards. (See Appendix I – Economic Seminar Series for Journalists.)

Seminars on the importance and status of economic reform were organized in the regions, with the AAAA's branch offices providing assistance in Gyumri and Vanadzor.

### **Surveys**

The Project, in conjunction with IBTCI and PWC (USAID contractors for privatization and capital markets, respectively), conducted a survey of the Armenian general public on the economic reforms. The survey sample included 25 cities and 64 villages. Television, the survey indicated, was the main source people relied on for assessing the impact of the economic reforms. The second survey, conducted in March/April 2000, produced similar results.

### **TV Programs**

The Project's Communications team launched "Progress Economic TV Series," a biweekly TV program elucidating the economic reforms. Four programs were made on accounting reform, four on capital market reform, three on land registration and titling, three on tax and fiscal reforms, and six on privatization. The PI team assisted all the economic reform projects in writing their TV scripts and provided the Armenian and English voice-overs for the accounting reform TV shows.

### **Media Coverage**

The PI team organized extensive news coverage for significant events, including the Economic Seminar Series for Journalists and press conferences, as well as the ACCA Awards Ceremony and the AAAA Opening Ceremony of its headquarters. The team secured tapes with the coverage (transcripts translated into English) and translated articles on the events covered by local newspapers.

### **Publications – Media Digest, Newsletter, and Brochures**

The PI office produced a daily media digest with topical articles compiled from different sources (newspapers, news agencies, TV news programs, and the Internet). The digest's emphasis was on economic developments in Armenia but included related political events.

The PI team also produced the *Progress* newsletter, which included articles from all of the USAID economic reform projects. The newsletter was distributed to the USAID projects, local and international organizations (in Armenia and abroad), different RoA Ministries, interested companies, and Non-Governmental Organizations (NGOs). Issues of the newsletter were sent to Diaspora Armenian publications, often leading to favorable results, such as a published article on privatization in the *Armenian Reporter*. Also, since May 2000, privatization advertisements were published in the *Armenian International Magazine*, a quarterly newsletter with a distribution of approximately 400 subscribers.

Separate brochures were compiled, designed, and published specifically for the Project. The topics included the following:

- An overview of accounting reform;
- Reasons for enterprise conversion;
- Training in accounting;
- The AAAA.

### **AAAA Public Awareness Development**

The Project's PI team also helped the AAAA develop its own communication strategies. The first step was the hiring and training of a communications manager. This position helped facilitate communication inside the AAAA, to its members, and to the general public. Examples of the communications manager's work include writing the AAAA's constitution and designing and publishing the AAAA's general brochure and a separate brochure on training. The PI team provided further guidance regarding how to organize events, secure media coverage for events, and compile materials for the AAAA Web site. AAAA courses were advertised in Yerevan and the regions. Other internal communication activities included reporting and disseminating AAAA committee proceedings and the AAAA Code of Ethics and Rules of Professional Conduct to targeted groups and meetings with key audiences. Public information skills now reside within the AAAA in the form of a well-trained, full-time communications manager.

### **III. Lessons Learned**

#### **Project Design**

This Project was designed for all tasks to be implemented simultaneously. The approach proved successful and should be considered for future accounting reform projects. But if another project were to be initiated based on the same design, consideration should be given to the following:

##### **1. An essential need for early counterpart commitment.**

The Project faced a perilous obstacle within the first six months because the continuation of all tasks was dependent on the cooperation of the counterpart (MoF) to have IAS adopted into law. Without this critical component, enterprise conversion and the need for training to build capacity would have been mute. This, in turn, would have reduced the revenue streams (from training courses) to the SRO, thereby undermining its financial sustainability goal, which, in turn, would have reduced its credibility.

The Project steadfastly worked with the necessary interests and secured these laws. Future projects with a high expectation of not securing these laws may find it strategically helpful to deploy the training of accounting for non-accountants in the early stages of the project. This bottom-up approach could be beneficial for the following reasons:

- Enterprise managers quickly learn the benefits of internationally based accounting, thus creating a demand for official reporting of financial statements based on IAS at the enterprise level.
- Support to use IAS by companies would come from those seeking early listing within capital markets, demonstrating good corporate governance accompanied by transparency with internationally accepted financial statements.

##### **2. A clear demonstration of sufficient resources.**

Having sufficient financial and technical resources provided assurance to counterparts that the Project could and would be executed fully. Individuals within the counterpart institutions expressed concern and skepticism at the early stages of the Project, as there was a risk of personal recourse in the event of only partial reform.

#### **During Start-Up**

The start-up challenges experienced were not exceptional when compared with other projects in other republics of the former Soviet Union. The specific lesson learned is not to take operational matters for granted. Finding appropriate commercial space, installing

functional communications equipment, and even securing office furniture proved to be problematic.

The time and attention spent to implement these issues was more than anticipated, but the time and attention were necessary because facility issues can impact a project. The layout of the office space prevented the Project staff from working on one floor, perhaps causing the loss of some natural team-building opportunities. Also, finding an inexpensive telephone and switchboard system with the desired capabilities was impossible. Phone communications were a problem throughout the Project and prohibited setting up an interoffice local area network (LAN). Further, the purchase of modest, long-lasting office furniture had to be made with a vendor outside Armenia and took several months for delivery.

## **During Implementation**

### **1. Seeking and obtaining early counterpart participation and engagement.**

Another beneficial consideration is to provide the counterpart an opportunity to work with the transition; this promotes understanding, ownership, and reduces personal insecurities usually associated with changes in the workplace. Failure to fully engage the counterpart is likely to create barriers, thereby impeding progress. Further, a longer-term vision should be offered early to the counterparts to demonstrate their personal gain from engaging within the reform process. This Project assisted individuals within the MoF to understand the private sector's need for IAS, and then they appreciated their own need to



**Artak Adamyan (from left), Anahit Virabyan, Arayik Maroyan, Anna Hovhanissyan, and Vahagn Martirosyan won “Train the Trainers” USA Master’s accounting scholarships in 1999. After receiving their degrees from the University of Texas-Dallas, they will teach at Armenian universities. The program was a joint effort of USAID, AED, and Sibley International.**



focus on applying IAS to the public sector (governmental accounting). With this reassurance, the reluctance to transfer the responsibilities of interpreting and monitoring IAS for enterprises to the private sector was reduced.

## **2. Working with the counterparts all the time and leaving nothing to chance.**

The Project's intention was to mobilize with a full expatriate staffing. Seeking early results, the expatriate assigned to enterprise conversions arrived, and then hired and trained a local staff of about 10 accountants to become trainers for audit firms, which would then perform the financial conversion of enterprises. This occurred prior to securing a firm commitment from the government (MoF) to allow enterprises to convert to IAS during the first year of the Project. The risk was low, as it had already been established that the government was pro-reform. However, the Head of the Accounting Methodology Department convinced the Minister of Finance to send a government decree to the President for his signature demanding that all enterprises maintain two sets of books during the first year. From experience in other CIS republics, it is known that if enterprises are required to maintain two sets of books—with one based on IAS and one the old Soviet way—they find this too expensive after a short period of time and revert to keeping only the Soviet set.

The proposed decree would have prohibited true conversions for one year, and the efforts of the expatriate and the 10 local accountants would have been wasted or delayed. It is conceivable that the Head of the AMD was not intending to prevent accounting reform, but was simply taking a conservative approach and wanted a year to prepare for conversions. Fortunately, on this occasion, the Project had already developed a good working relationship with the President's staff and was able to delay the approval until the U.S. Ambassador's support had been enlisted. The Ambassador wrote to the receptive Prime Minister, resulting in the decree being changed and conversions proceeding almost on schedule.

## **3. Planning for tiered compliance by enterprise types.**

The MoF's early commitment to adopt IAS into law was accompanied by the requirement that all enterprises were to convert to IAS-based financial reporting commencing January 2000. It was subsequently realized that this target was unrealistic and had to be modified or risk some enterprises technically being in non-compliance with the law. The law was amended to reflect a tiered implementation. Priority was given to all JSCs, as they were being publicly traded and required IAS-based accounting financial statements to support their transparency and demonstrate their good corporate governance. The second tier, which includes limited companies, commences its conversions in January 2001. All other enterprises must begin converting in January 2002. If the tiered approach had been introduced at the onset, it would have reduced any confusion and enhanced confidence in the reform process.

#### **4. Applying simultaneous task implementation as soon as possible.**

Once the counterpart's commitment for IAS conversions is secure, the simultaneous implementation of all the tasks has a synergistic effect, with the combined results being greater than if implemented sequentially. For example, accountants (with modern training in IAS) facilitated having enterprises agree to adopt financial accounting conversions (a bottom-up strategy). Equally, the need for enterprise conversions generated demand for training (a top-down strategy). Both activities supported the need and development of the SRO.

#### **5. Maximizing public education to weave together the economic reform projects.**

The public education component in this Project was extremely helpful in reaching the targeted audiences. However, after the Project started, this component of technical assistance was to cover the other economic reform projects as well. There is the possibility that not all contractors cooperated equally. There was speculation that some projects were reticent in using the expatriate resources from another contractor, viewing this as a lost commercial opportunity, and they proposed that dedicated resources be incorporated within their own projects. Had the public education component been a stand-alone project, it is possible that a more harmonious effort would have resulted.

#### **6. Accepting that unsatisfactory compromises inevitably become part of the implementation process.**

The start of the ACCA training program required heavy advertising within the first few weeks of the Project's beginning. The response was very favorable, with more than 100 students for the English training. The intention was to use the better students from the English course to become instructors for the same course but taught in the local language with pre-translated materials. However, most students of the courses in local language wanted an expatriate instructor and complained about the quality of the local-language trainers. The Project faced three strategic choices:

- To hire more expatriate trainers;
- To limit the class enrollment, allowing the expatriate to teach everyone; or
- To accept the complaints as unavoidable.

As the hiring of a further expatriate was beyond the budget and the strategy was to train large numbers of students on a non-exclusive basis, a solution at reasonable cost could not be found. Consequently, the decision was made, with USAID's agreement, that the early complaints had to be accepted as unavoidable. With time, the complaints dissipated and were clearly without long-term substance; the number of enrollees continued to increase.

## **7. Overcoming resistance to changing the educational curricula.**

The academic community within Armenia was reluctant to implement curriculum changes. To overcome this problem and to stimulate the academics, the Project encouraged the AAAA to form a Higher Education Committee. With the support of government and the influence of accounting and auditing leaders in Armenia, this committee, with its perceived leadership role, was able to overcome this resistance by reviewing and commenting on the current best practices, i.e., the UN Global Curriculum Recommendations and IFAC Guidelines. The result was a recommendation for a curriculum reform program that met the IFAC Guidelines and the AAAA's new certification requirements. This accomplishment demonstrated the true influence the AAAA had achieved in Armenia.

## **8. Changing the teaching approach.**

After the first ACCA exams in December 1998, it became apparent that U.S.-style university teaching, which relied heavily upon the student, did not work in Armenia primarily because of the legacy from the Soviet education system. In the second semester, the teaching style was altered to require class attendance and homework assignments. Additionally, the Project staff spent considerable time with students on “mock examinations.” Quizzing and testing students on a regular basis and essentially teaching them how to take a Western-style examination proved successful; the pass rates for the second exams rose and were comparable with other ACCA international results.

## **Working with the Client**

### **1. Centralizing interface with the client—preferably in the field.**

There was a good working relationship with USAID throughout this Project. However, for future projects, all parties may find it beneficial to have the CTO responsibilities held within the field. The advantages to be gained include a reduced risk of communication errors and misunderstandings as well as expeditious consensus in reaching decisions.

### **Testimonial**

TOSP, a manufacturer of cotton goods, is an OJSC. Its accountants received training in both conversion methodology and AAS. The managers attended the non-accountants course targeted for managers. Susanna Sarkisian, TOSP's chief accountant, writes:

“We are very thankful to Sibley for the assistance provided to accountants. Since the collapse of Soviet Union, the accountants were moved to second plan. The assistance received was very productive. We got a general overview of international accounting. It was good also for managers, and specifically for the accountants from this point-of-view, as the managers start to understand the information provided by accountants. We have foreign partners, suppliers and the knowledge obtained during this project will assist in understanding each other better. Now they are more willing to cooperate. We are looking also foreign customers and I hope, now we can find them more easily. However, I think we will need more assistance at the end of year, when we will close our books and prepare the Financial Statements. The training in AAS was very helpful, but I think it's not enough. We need experts, that already have experience in this.”

The original Task Order was written flexibly, which had advantages and disadvantages. The advantages were that it allowed the Project and USAID to work truly as a team in responding to the Armenian environment and for both parties to proceed knowing that the activities remained within the contractual boundaries of the Task Order. However, this flexible nature of the original Task Order also meant that it was subject to interpretation—and possibly different interpretation—with the change in USAID’s CTO. In this respect, the consistency of the Mission’s staff helped minimize the change in interpretation, but the more focused Task Order for the extension period was welcomed. The Project Team would recommend that USAID apply this practice to all its projects, not only the accounting reform projects.

### **Working with Local and International Interests**

Local Staff: The majority of the local staff proved to have a good work ethic and a keen interest toward personal gain and achieving personal knowledge. There were no significant cultural barriers to overcome. However, it is worth noting that the environment—with limited water and heat, particularly in the winter months—meant that local staff sometimes required more time to prepare for work. Expatriate staff had to take a sympathetic and patient approach.

Self-regulatory Organization: Once the AAAA had been formed, the Project had difficulty judging the intensity of initial support it should provide. Direct intervention could well have been perceived as intrusive, creating resistance and perhaps resulting in some operational distance. However, without intervention, the possibility of poor management and inappropriate decisions existed. In this Project, the AAAA’s council elected committee members who were in some way linked to the GoA, thereby masking the objective of moving the accounting profession from the public to the private sector. The Project achieved a balance of having a “watchful eye” without direct, intrusive intervention by having the expatriate technical assistance based within the SRO.

Local Universities: From the Project’s inception, there was oral support by the universities’ senior staff to incorporate changes to the accounting curricula. However, it became apparent that there was a divide between intentions and practical application. One challenge the universities face in implementing the changes is the lack of financial and material resources (books and teaching equipment). The issues of motivation and incentives are also challenges. Many of the professors have dedicated their lives to academia and enjoyed higher social status in the Soviet era. Subsequently, their social standing has dropped, and there has been a lack of pay from their respective state-run institutions. Consequently, there is little interest or drive for the staff in their senior years to learn something new and to teach with modern pedagogic techniques.

International Organizations: The Project assisted in gaining the commercial cooperation from international suppliers, such as A.T. Foulks Lynch (U.K.-based supplier of training texts) and the ACCA. Strategically, the Project assigned one local staff member to be the main liaison with the international suppliers. With expatriate guidance, the local staff

member was recognized as competent by the international organizations and the relationship developed. Once the AAAA had been formed, this staff member quickly moved into the Association. Encouraging the suppliers to contract and deal directly with the AAAA as soon as possible, the Project simply oversaw the logistics and ensured that the payments cycles were met. This approach was intended to minimize any disruption after the Project's end.

## **IV. Project Assessment**

Prior to the Project's begin date, the accounting landscape in Armenia was as follows:

- Only one of the international accounting standards had been discussed with the MoF (in the context of the energy industrial sector), and the MoF had insufficient resources to methodically analyze and understand IAS.
- The regulatory and legal framework offered no provision for adopting internationally based accounting practices—both the public and private sectors were functioning on the statutory for the Soviet accounting methods.
- Very few individuals had undergone formal financial training involving IAS (except in banking and a few individuals taught by the European Union Tacis Programme [EU Tacis]).
- Certification and licensing of auditors remained the function of the government, with little emphasis placed on training and proven ability.

### **Initial Impact**

#### **Armenia has fully adopted the use of IAS.**

Armenia is one of three CIS republics to have adopted IAS in full compliance with international guidelines and has established a mechanism to have the standards maintained with updated interpretations on a regular basis.

#### **A nationally and internationally recognized and respected professional association for accountants and auditors has been established.**

The AAAA represents the accounting and auditing professions and, furthermore, it provides a valuable service to the community as a whole by setting high, professional codes of ethics that elevate their members' status. Members benefit from this status and, thus, value maintaining their membership.

The group's Continued Education Program ensures that the professional body stays current. In this regard, its members have become and will remain more informed on the subjects of accounting and auditing than the government, which has transferred the responsibility of interpreting and maintaining the international standards to the AAAA.

Given the general public's inherent high suspicion of the government, having the SRO within the private sector will bolster the public's confidence in the profession, and they will more likely start believing the news they hear about an enterprise's performance.

Ultimately, this confidence will lead people to invest their cash savings currently under mattresses in enterprises.

### **Armenian accountants trained to internationally accepted standards.**

Many Armenian accountants with English speaking abilities have passed ACCA examinations and received internationally recognized certificates. The non-English-speaking accountants have been trained to the same level—through the use of translated ACCA texts and past examinations—with the 14 module courses that form the basis of the national certification. Both training methods ensure that accounting practices remain consistent throughout the country and remain accepted by the international community.

### **A critical mass has been reached in the number of enterprises having undergone financial conversions.**

Signifying that the financial community's reports have become standardized with greater transparency, 629 OJSCs have converted their financial reports to comply with IAS. Enterprise managers and owners now realize that the benefits of this financial transparency can:

- Assist capital market development and the national economy as a whole;
- Help access loans and other credit vehicles;
- Attract direct foreign investment.

Part of the critical mass comes from the non-OJSCs that have converted to IAS on a voluntary basis, which also will help them obtain loans and credit.

### **An effective link has been established between enterprises converted to IAS and the tax inspectorate.**

The Armenian tax inspectorate has accepted a new method for enterprises to submit their ISA-based financial reporting. An effective income-to-tax reconciliation form has diffused potential objections and hindrances to the progress of the accounting reform project. This form simply restates the figures of IAS-based financial reports into a format familiar to the tax inspectorate.

### **Audit companies have gained business tools to become stronger and financially self-sustaining providers of business services.**

The 20 Armenian audit companies that assisted the Project during the enterprise-conversion process can now provide financial conversions to the remaining OJSCs and

help bring them into compliance with the law. The new audit law requires other enterprises, including limited companies and state-owned enterprises, to be eventually IAS compliant, and local audit companies can offer their services for a fee, again contributing to their own commercial viability. As a natural evolutionary step after financial conversions, approximately six of the auditing firms acquired the intellectual capacity to introduce the first steps of cost accounting to the private sector.

**Twenty-seven (27) Armenian enterprises received direct assistance to increase their chances of survival and prepare for growth.**

The Project provided 27 Armenian enterprises the first tool of cost accounting, enabling managers and owners to learn the importance and benefits of installing managerial accounting. To make the enterprises competitive and increase sales, the Project helped demonstrate break-even analysis and showed how production inefficiencies can increase costs and impact selling prices. Enterprises immediately benefited from this assistance. For example, a tile manufacturer was allocating all its overheads on only 10% of its sales and finding its prices were not competitive. The cost accounting intervention resulted in reallocating overhead and developing a more competitive price for its products.

**Changing the audit law.**

The MoF has committed to support a new audit law, by agreeing to adopt international best practices related to auditing and issuing audit licenses to individuals who have satisfied the AAAA's certification and qualification requirements. In this respect, the GoA has acknowledged that the AAAA is more effective and flexible than it is in interpreting new audit regulations, and the MoF's issuance of audit licenses essentially will become ministerial in nature. Further, the AAAA, with its level of expertise and absence of political obstacles, will be able to implement changes to keep Armenia's auditing practices current with other countries. Recommendations for changing the content of the existing audit law are presented in Appendix J (Discussion Papers: The Legal Regulation of Auditing in the Republic of Armenia).

**Auditors use internationally accepted practices.**

Armenian audit firms have been trained to perform audits using internationally accepted practices. This will increase the confidence of creditors and investors, as only independent auditors, who rely on their own reputation to survive, can interpret and comment on the financial and management performance of enterprises.



### **Changes for the national academic curricula.**

Armenian academic institutions have started implementing changes in the accounting curricula based on IAS and ISA, giving the next generation of accountants a fundamental understanding of the international accounting practices now used by Armenian enterprises.

### **Expected Impact**

By installing international accounting practices as an integral part of Armenia's long-term economic development, the Project has benefited Armenia beyond providing a better financial and reporting environment for enterprises and raising the professional status and career prospects of auditors and accountants. Good, solid accounting practices can be the cornerstone for a country's economy and support other activities that improve society. From solid accounting practices, assets can be valued and longer-term wealth can be realized.

### **Provide enterprise managers and owners ways to make decisions that encourage entrepreneurship and participation in the global economy.**

Some of the enterprise managers that received assistance in cost accounting understood the need to reallocate overheads and adjust their pricing accordingly. In several situations, they reduced their prices with confidence and strived to regain market share



**Haik Vardapetyan (center), AAAA's founder, with Vanadzor AAAA branch founders Hovik Hovsepyan (left) and Sirak Sardaryan at the Vanadzor seminar.**

that had been lost to intruding foreign competitors. The ability to make these types of decisions retains employment for Armenians within Armenia, repels foreign competitors, and potentially provides a way for Armenian entrepreneurs to seek higher volumes by expanding export sales.

**The integration of internationally based accounting systems into state-owned enterprises will expedite the privatization process.**

As the Armenian government's commitment for accounting reform is so high, future expectations are that the MoF will request financial conversions for state-owned enterprises. This progressive step could subsequently support privatizing these enterprises. Their financial performance would be recorded and interpreted with a higher level of confidence, giving future shareholders greater incentive to seek improved performance from the enterprises themselves.

**Modern accounting practices could stimulate further changes in the legal and regulatory framework—specifically tax law.**

The results from IAS-based financial reporting and the Tax Reconciliation Form have highlighted residual issues from the Soviet era that perhaps are no longer pertinent in the emerging economic market. For example, the permissible limits on expenditure for advertising and personnel training are potentially obsolete. These confrontations with existing tax policies may lead to future changes in tax policy and tax law.

**Encourage growth of the capital market.**

As more enterprises report, disclose, and build a history of their financial statements based on IAS, there will be greater transparency and trust in the enterprises and their managers. This, in turn, will further stimulate the capital markets. As enterprises report and demonstrate their financial success, the demand for their shares will increase and consequently the share value will rise. Through an eventual IPO, outside institutional and individual investors will invest, and managers will be held responsible to make good use of the new capital.

**Assist with improving corporate governance.**

Financial reporting and good management accounting provide mechanisms of traceability and transparency. Both are required for improving corporate governance, which defines the responsibility of the enterprise managers, their directors, and the shareholders.

**Regain the public's confidence of the government through greater transparency.**

As the government transfers its accounting authority to the private sector and sees the benefit of using IAS, it can apply the same reform mechanisms to its own accounting activities. The subsequent summary financial reports can be used as performance measures when evaluated and compared over time. Provided the performances show

improvements, the public most likely will conclude that the funds are well managed; this could increase their confidence in the government.

**Provide every citizen a way of measuring and growing their wealth for the benefit of themselves and the strengthening of their country without losing it to the country.**

The legacy of a communist administration in Armenia is a cash economy. Many citizens measure their wealth by the cash stored under their mattresses. As land, property, and enterprises become privatized, and wealth is recognized also according to tangible, long-term assets—and formally recognized by internationally based accounting practices—then the plight of cash from the state can be reversed. When Armenians believe in investing in their enterprises, the international community will follow, and the standard of living, including social services, will likely improve.

## **V. Recommendations**

### **General Recommendations**

- **A longer-term vision for accounting reform in the CIS**, including a harmonization of efforts within the different countries, would enhance individual tasks. Prior to this Project, USAID seemingly tried different techniques to implement accounting reform. These variations included involving the government versus excluding the government to have IAS approved; converting a limited number of enterprises with full financial and managerial conversion versus simple conversion for the majority of enterprises; and training based on ACCA versus training according to a mix from different origins and somewhat dependent on the comfort of the expatriate staff delivering the courses.

It is understood that not all the techniques employed in the first accounting reform projects were successful. However, counterparts for this Project who were reluctant to make changes would on occasion research the activities of other republics and cite how the technical approaches among projects differed. Having all projects communicate, debate, and implement best practices across the region as a whole would be helpful.

Harmonizing new accounting reform activities internationally can only strengthen the development efforts and outcomes from USAID and its contractors. For example, if a number of the SROs from different countries assembled agreed upon a standard for local-language examinations, this would elevate the status of each country's national testing and certification process.

- **Coordination with other economic reform activity** would ensure the integrity of the accounting reforms and prevent unforeseen problems. The other economic reform projects (capital markets, banking, energy, tax and fiscal reform) have the potential to forge out a variant form of accounting, thus possibly reducing the overall accounting reform in the region. In particular, efforts should be made in Armenia to ensure that there is an agreed upon and standardized use of the Chart of Accounts.
- **Selection criteria should be established for enrolling students in training.** Naturally, students who are admitted to the ACCA English-based courses should have suitable English language skills. Having a mechanism to determine a student's English skills is important for many reasons. If the selection process is too relaxed, initial enrollment will be high (encouraged by revenues from fees) but this could lead to student frustration and high dropout rates or worse, i.e., high failure rates on exams. In contrast, if the requirements are too stringent, then the process could be exclusive and perhaps focus on those who have better English skills than potential accounting skills. An established mechanism that is quick, easy, and inexpensive to administer is needed to determine the necessary English skills. Ideally, this mechanism should not be the judgment of the course instructor, which could be subject to debate or bias. In designing such a mechanism, care should be given to

recognize that the lower-level courses involve more arithmetic and that skills in understanding English are more relevant. In the higher-level ACCA modules, however, the examinations require students to write argumentatively in English.

For the non-English courses, potential students should demonstrate their ability and commitment because the coursework requires completing major tasks. For example, the Audit Engagement Course required its students to prepare audit work papers and schedules in good form and to complete a written examination of international standards.

### **Recommendations Specific to this Task Order**

- When developing curriculum reform in the future, projects should seek alternatives to forming partnerships with U.S. universities. This Project experienced difficulties in this area for the following reasons:
  - Not many of the U.S. universities were familiar with the ACCA-based courses, as most U.S. teaching is based on U.S. Generally Accepted Accounting Practices (GAAP);
  - Most of the U.S. universities contacted seemed to be motivated by money or status. Once it became apparent that there was little financial gain, the interest rapidly dropped, and achieving some recognition, through exchange research programs, was unrealistic due to the under-funded universities of the former Soviet Union.

To overcome this shortcoming, this Project recommended a partnership with a teaching institution in the U.K.

- A longer duration time for the Project would have been beneficial. Continued training of the ACCA English course would have enabled students to reach even higher levels of expertise. Also, the Project could have periodically supported the fledgling AAAA regarding its activities to further install good accounting practices throughout Armenia. Further, staff would be available to answer enterprises' technical questions as they complete their IAS-based financial reporting for the first time.
- The Accounting for Non-Accountants course should be introduced earlier. These targeted professionals should be selected on the basis that they are likely to serve as “reputational intermediaries” for investors seeking guidance in a young capital market. Such intermediaries extend beyond the voluntary or mandatory SRO of the stock exchange but include specialized accountants (who are trained to investigate and review self-dealing transactions and to ensure that the transactions are correctly disclosed); lawyers; investment bankers; and bond or fixed-income investment rating agencies.

- Resources should be dedicated to one or two high-performing enterprises to demonstrate that cost accounting and financial accounting can assist business decision-making. Using the correct public education vehicle, news of success stories could stimulate other Armenian enterprises to follow suit. The cost accounting exercises could be applied to different aspects of an enterprise's business components; for example, enterprises could examine different scenarios to strengthen their financial standing, or managers could compare the cost of reducing their labor force versus modifying equipment to reach a new market.
- Formally explain and promote the importance of corporate governance as an integral part of applied accounting. Some courses, particularly those targeting enterprise managers and owners, could discuss how managers and shareholders have a responsibility for instilling good corporate governance practices.
- Intensify non-accountant training in key sectors, such as the tax inspectorate.

### **Logical Follow-on Work**

- Continue dispersing cost accounting as a managerial tool to as many enterprises as possible.
- Add to enterprise managers' and owners' financial toolbox with other managerial accounting practices. Follow the initial training in cost accounting with topics that include:
  - Controlling costs;
  - Cash-flow management;
  - Inventory valuation and control;
  - "Make or buy" decision analysis;
  - Return on asset investment analysis.

Management accountability and performance evaluation processes throughout enterprises are paramount for good decision-making, implementation, control, and adjustment. The monitoring and accountability processes should include reporting results and trends, as well as audit testing. The business decisions within the management accounting framework must be based on economic reality that reflects the best available measure of present and probable future cash flows, costs, and values. This economic reality cannot be specified or constrained by historical costs and values if they have been specified by inappropriate government regulations that may impair the determination of fair value. Obviously, for Armenian enterprises to have effective cost accounting mechanisms, they must balance economic realities with timeliness and have the ability to routinely update needed information without costly adjustment and reclassification of the underlying accounting records. In this respect, having Armenian enterprises base their economic reality on internationally approved and recognized standards bypasses the need to create or debate standards

and provides guidance for immediate implementation; managers and owners also are provided rapid assistance to make critical business decisions.

- Introduce more ways to show the relevance of how managerial accounting impacts other business practices. Enterprises that complete a managerial/cost accounting program and incorporate the mechanisms into their daily operations would benefit from receiving sequential or follow-on training regarding capital and marketing practices.
- Further expand and strengthen the legal and regulatory framework, particularly the audit law and other tax laws. With the legal framework for IAS now in place, the next step is to ensure that enterprises are using the new standards and are in compliance with the law. This will require completing the approval of international standards for auditing and having Parliament pass the proposed audit law. Also, laws for settling disputes between tax authorities and enterprises should incorporate the use of independent audits.
- Champion audits as a way to applaud transparent corporate success. Transparent audits will aid corporate governance, build company strength and stability, and attract and demonstrate safe usage of investor funds. With the correct public education effort surrounding the new audit law's announcement, the audit process can be perceived positively, rather than as a legal mechanism for tax inspectors to police enterprises' tax returns.
- Help the SRO reach true technical and financial self-sustainability. While the SRO in Armenia no longer requires the assistance of an expatriate on a full-time basis, an expert is needed to provide timely advice. A possible solution, which is also cost efficient, is to contract a SRO advisor whose time can be shared with a number of SROs in the region. The advisor could visit periodically and focus on solving common problems, as well as nurture support among the SROs themselves. Further, the SRO's training, certification, and continued education programs can fulfill its goal for financial self-sustainability. Marketing the value of these programs and delivering quality courses will generate substantial fees, as well as keep members current with international accounting and auditing developments.
- Continue AAAA topical training courses. The impetus to provide training that matches the growing needs of the financial community is now well and truly incorporated in AAAA culture. However, continued support and expertise from outside Armenia is still needed to introduce topical issues that will fulfill the AAAA's commitment to high-quality training and certification.
- Through curriculum reform, ensure that future generations understand and are equipped to work with internationally approved accounting practices. The next step is to re-establish the Curriculum Reform Working Group and hold a workshop to analyze the pros and cons of implementing curriculum reform at the targeted universities during the Fall 2000 semester. This workshop should stimulate

overcoming common obstacles together, thus maintaining enthusiasm and a supportive network for the reform to continue. The group should then formally link and strengthen ties with the accounting training center in London, which could take over the Project's role of stewarding the curriculum reform process. Taking on this responsibility and providing periodic support throughout the year would be in the training center's best interests to ensure that the group attends the center's refresher courses and that new professors attend its fee-based courses in the summers.

- Perform higher-level international accounting training. This training should include not only the formal ACCA training to the highest level (currently module #14) but also specialized disciplines such as:
  - Asset evaluation and appraisals for IPOs;
  - Elementary financial analysts.
- Integrate Chart of Accounts. Toward the end of the Project, it became evident that the interests of the regulatory sectors in financial information (e.g. banking, energy, and capital markets) were not integrated into the Chart of Accounts. This requires immediate corrective action, as any uncoordinated activity that might emerge would be detrimental to the economic reform projects.
- Take local training to a higher level of international recognition. The training of accountants based on the translated syllabus of ACCA had an exceptional start in Armenia. This method has become the benchmark for the CIS, and other republics should be encouraged to adopt the same form of training. As USAID reduces its



**Ara Aslikian (left), First Deputy Minister of Finance; Wayne West, AEAR Project Director; and Hovhannes Petrosyan, Head of Accounting Methodology, at a press conference at the Ministry of Finance and Economy.**



technical intervention, a further mechanism to encourage self-support would be to help facilitate a regional program where the examinations are standardized for a number of the republics. This would help prevent republics from lowering the quality or standards of their courses and simultaneously provide a way to give individual national certificates international recognition, albeit within the other participating republics.

- Encourage but channel the natural development of Armenian language training materials. As Armenians become more proficient in accounting, some will see the opportunity to create texts and training guides in the Armenian language rather than Russian. This should be seen as enhancing the existing resources and should emerge naturally as a commercial opportunity responding to market demand, rather than requiring further donor funding. However, some early mechanism should be installed to test the relevance and accuracy of new content.
- Support the counterpart (MoF) by integrating IAS within government accounting. The next pressing step in accounting reform is for the public accounting sector to adopt IAS standards, thus keeping the government current with the private sector, helping restore transparency to government agencies, and complementing anti-corruption initiatives promoted by global bodies such as the World Bank and International Monetary Fund. This would increase confidence in the Armenian government—both in Armenia and abroad.
- Assist the MoF with auxiliary accounting components within the private sector that meet new market needs. These developments are likely to include specialized charts of accounts for certain industries. The MoF likely will seek guidance in making these adjustments, in addition to Small and Medium Enterprises (SMEs) that may require a modified chart of accounts following changes in the tax law.
- Oversee the remaining tiers of financial conversions for enterprises. The Armenian government now has experience and confidence in introducing IAS into private-sector enterprises and a strong interest to do the same for many of the state-owned businesses. This should be supported, particularly alongside the introduction of cost accounting and managerial accounting, as it will allow managers to evaluate efficiencies and possible results from future investments. Armed with these tools, state officials can make better-informed decisions about investing in the enterprises or privatizing them. If privatization were selected, then “pre-privatized,” state-owned enterprises would benefit from having a history of IAS-based financial reporting. Potentially the GoA could secure more realistic prices, which would contribute significantly to reducing the national debt.
- Oversee corporate restructuring, including debt restructuring and cash flows. As Armenian enterprises develop a history of IAS-based financial reporting and incorporate managerial accounting with increasing sophistication, they should seek assistance for analyzing various corporate restructuring scenarios. This could include reviewing and rescheduling debts with new and more appropriate lending vehicles.

Maximizing cash flow can benefit improvements in production or gains in economies of scale through market share expansion.

- Train specialized accountants. As the activities of USAID's five individual economic reform activities begin to meld, the synergistic benefits that emerge can be facilitated and used as examples for others to acquire confidence. For example, a recently privatized enterprise that has incorporated IAS can be listed on the stock exchange. The managers will be able to use internationally recognized financial techniques to evaluate and argue the optimal investments the enterprise requires to achieve its strategic objectives. With good corporate governance and the roles of enterprise managers and responsibilities of shareholders clearly understood, the new era of Armenian enterprises should be able to issue shares and seek access to capital for investment purposes using the capital market institutions. To facilitate these activities and to shorten the time for the benefits to be realized, some accountants will require specialized training in disciplines that cover:
  - Appraisal services and asset valuation for IPOs;
  - Financial analysis (e.g., building investor confidence by researching and verifying the absence of undisclosed corporate dealings).

## **VI. Concluding Comments**

The Armenia accounting reform project was very successful, first technically by achieving all of USAID's desired deliverables in the time frame provided and, second, by institutionalizing internationally recognized accounting practices into everyday business activity. The AAAA now has the status, structure, and skills for being the self-regulatory organization that represents the professional body of Armenian accountants and auditors. This body will coordinate and continue the work this Project started. It is virtually financially self-sustaining, primarily due to the high-quality, ACCA-based (English and local language) courses introduced by this Project and now reputed to be the benchmark for all accounting reform projects.

The Government of Armenia, in particular the Ministry of Finance, has gained understanding and confidence in the international accounting and auditing standards, to the point that it endorses their use throughout the private sector. New laws have been established and passed that ensure Armenian enterprises present their financial reports in compliance with international standards and practices. A critical mass of enterprises have received instruction on how to comply with the new laws and to use the new financial reporting to fulfill their tax obligations, thereby ensuring the irrevocability of the transition. Technical capacity now successfully resides within the local auditing firms to assist those enterprises yet to convert to IAS-based reporting, bringing to a close the need for further donor support for this component of the Project.

The strong training programs, both in local and English languages, have significantly increased knowledge of internationally based accounting to more than 1,000 Armenians. Some academic institutions have recognized the importance of this training and have started to adjust their curricula in order to teach the new generation the financial/accounting skills they'll need when they become part of the Armenian work force.

Components of cost accounting are being utilized as decision-making tools by Armenian entrepreneurs and business owners/managers. These tools will be vital for Armenian enterprises that are currently surviving as rudimentary commercial shells and are seeking ways to transform themselves into being major employers and wage providers for the country's citizens.

With this firm basis of international accounting practices, Armenia's economy can start to recover. Enterprises that have a history of accurate and transparent financial reporting are more likely to receive financial investment. Business owners and managers are becoming better equipped to make the best use of the investments, providing returns and reducing risk in order to attract further investments. The future role of good corporate governance and the distinct responsibilities of enterprise managers and shareholders will be important in perpetuating the investment cycle.

Supporting the Government of Armenia to adopt IAS practices into its own agencies will contribute to the transparency of the government's financial transactions and help reduce

corruption. This will further build investor confidence to participate in transforming Armenia's economy. The new accounting skills that now reside in Armenia's private sector will have to be introduced into the state-owned enterprises (SOEs) as well. This will require assistance from the international community, and it could increase the SOEs' efficiency, improve cash flow, contribute to reducing the country's debt, and increase the level of private investment in the privatization process. The country is ready to grow.

Sibley International is gratified by the results achieved in this Project. The professionalism and commitment of its expatriate and local staff significantly contributed to its successes. The Project Team worked in cooperation with USAID in Yerevan to create and leave a firm foundation of accounting practices upon which Armenia's economic future can be developed, measured, and strengthened.



**The Appendices for  
this report are bound in a separate document.**

**ARMENIA ENTERPRISE  
ACCOUNTING REFORM**

**APPENDICES FOR  
FINAL REPORT**

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***Prepared by:***

Sibley International  
2121 K Street, NW  
Suite 210  
Washington, DC 20037 USA  
Tel: 202.833.9588  
Fax: 202.775.9416

Prepared for: USAID/Armenia

# ARMENIA ENTERPRISE ACCOUNTING REFORM

## Appendices

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## **Appendix A**

### **Tangible Results**

## Appendix A

### Tangible Results

<p><b>Task 1.) To establish an independent Self-Regulating Organization (SRO) that is a self-sustaining Accounting and Auditing Professional Association (AAPA).</b></p>
<p>Status: Following the formation of the Association for Accountants and Auditors of Armenia (AAAA) as the SRO, executives were elected and the following committees were formed:</p> <ul style="list-style-type: none"> <li>• Accounting – <b>completed.</b></li> <li>• Auditing – <b>completed.</b></li> <li>• Membership and Ethics – <b>completed.</b></li> <li>• Tax and Economic Law – <b>completed.</b></li> <li>• Education and Certification – <b>completed.</b></li> <li>• A financial review and audit were successfully conducted in September 2000. <b>Completed.</b> (See also Task 1g.)</li> <li>• AAAA membership totaled 521 by 10/31/00. <b>Completed.</b></li> </ul>
<p><b>Task 1a.) Project Team / AAAA communication.</b></p>
<p>Status: Working-level meetings were held weekly for Project Team leaders and AAAA managers, with the last one occurring 10/10/2000. <b>Completed.</b></p>
<p><b>Task 1b.) SRO financial sustainability.</b></p>
<p>Status: By 6/1/00, the contractor supported the AAAA as it implemented its annual business plan, which included cash-flow projections, collection of dues, and other methods of generating revenue and cost control. While overseeing the business plan implementation, the contractor reminded the AAAA that failure to comply with the business plan would result in suspension of USAID financial support until conditions were met. Further, the contractor reduced the level of salary support as follows:</p> <ul style="list-style-type: none"> <li>• By 6/30/00 – 50% decrease – <b>completed.</b></li> <li>• By 10/13/00 – 100% decrease – <b>completed.</b></li> </ul>
<p><b>Task 1c.) Ethics and continuing education.</b></p>
<p>Status:</p> <ul style="list-style-type: none"> <li>• By 5/30/00, AAAA adopted a code of ethics compliant with IFAC, and originally it was expected that by 8/30/00 guidelines for interpreting the ethics codes would be published. The guidelines were prepared by 9/30/00. <b>Completed.</b> (Publishing of the ethics code is the responsibility of the AAAA.)</li> <li>• The Project prepared training materials on ethics and provided them to the AAAA, thus enabling the association to train its members about ethics. <b>Completed.</b></li> <li>• By 6/30/00, AAAA established mandatory CPE requirements for certification holders. <b>Completed.</b></li> <li>• By 9/30/00, the AAAA had established methods to enforce ethics codes. There have been</li> </ul>

no investigating cases requiring disciplinary actions, including de-certification. <b>Completed.</b>
<b>Task 1d.) Training centers.</b>
Status: By 5/31/00, the AAAA training facilities were established and properly equipped in accordance with its business plan. <b>Completed.</b>
<b>Task 1e.) International liaison.</b>
Status: <ul style="list-style-type: none"> <li>Originally, it was required that the AAAA would apply for IFAC membership in preparation for an IFAC review in summer 2001. This was <b>completed</b> by 9/15/00, and the contractor encouraged the AAAA to apply for the IFAC January/February 2001 review.</li> <li>The AAAA participated in one (informal) Caucasus SRO meeting and intended to host a Eurasia Federation meeting in Armenia in December 2000, but this was postponed till Spring 2001. <b>Completed.</b></li> </ul>
<b>Task 1f.) Local chapter development.</b>
Status: <ul style="list-style-type: none"> <li>By the end of the task order, local chapters (as specified in the business plan) and the AAAA Head Office in Yerevan were established. <b>Completed.</b> The AAAA was advised to seek nationwide participation as rapidly as possible.</li> <li>There was to be at least one meeting per year of all AAAA members, with the contractor providing support and guidance. AAAA's formal opening occurred 9/20/00, and the AAAA was expected to have its first annual meeting open to all its members shortly after 10/31/00. <b>Completed.</b></li> </ul>
<b>Task 1g.) Institutional strengthening.</b>
Status: <ul style="list-style-type: none"> <li>By 9/30/00, a project and financial review of the AAAA was completed, and a letter of recommendations was issued to its management. <b>Completed.</b></li> <li>The AAAA will be responsible for implementing recommendations contained in the management letter.</li> </ul>
<b>Task 2. To develop and implement an AAPA technical training and testing program.</b>
<b>Task 2a. i.) Training materials.</b>
Status: Russian translations of ACCA Papers 1, 3, 4, 5, and 6 were completed. Paper 6 was reviewed and edited. Paper 2 on Business Law and Paper 7 on Taxes are the Armenian equivalent and were completed. The Tax Committee completed its review of Paper 7 and decided not to publish the materials as a fixed textbook, but as a loose-leaf manual. The first edition of this manual was published and used by students studying for a tax examination in December 2000. <b>Completed.</b>
<b>Task 2a. ii.) ACCA training (English).</b>

<p>Status:</p> <ul style="list-style-type: none"> <li>Fifty-four (54) students took examinations and passed two or more of the ACCA Papers 1–8 in English. Instruction to additional students continued until 10/20/00. <b>Completed.</b></li> </ul>
<b>Task 2a. iii.) Local-language training and certification.</b>
<p>Status:</p> <ul style="list-style-type: none"> <li>The contractor's local staff trainers and program administrators were incorporated into the AAAA. <b>Completed.</b></li> <li>By 10/31/00, 44 students passed the equivalent of First Stage ACCA-based local/Russian language certification, provided the AAAA council's expected ratification (shortly after 10/31/00) of its policy of exemptions as recommended by the Project. <b>Completed.</b></li> </ul>
<b>Task 2c.) Deliver a course on audit engagement practices.</b>
<p>Status:</p> <p>This course was conducted throughout Summer 2000 and ended in early September 2000. <b>Completed.</b></p> <ul style="list-style-type: none"> <li>By 7/1/00, the AAAA and the MoF reached agreement on an approach to auditor training that best meets the interests of the professional auditing community. <b>Completed.</b></li> <li>A practical audit training course was designed and translated April through June 2000, then delivered to approximately 80 members of local audit firms and other interested groups, such as tax inspectors and members of the MoF. Eighty-two (82) participants received certificates of completion. <b>Completed.</b></li> <li>Georgian audit specialists were also included in the training session. <b>Completed.</b></li> </ul>
<b>Task 3.) To develop an educational reform program.</b>
<p>Status:</p> <p>The AAAA Education and Certification Committee working group reviewed the current Armenian university curricula and compared them with the UN Global Curriculum and ACCA recommendations. The expatriate expertise initiated changes in the accounting curricula in the appropriate academic institutions by maintaining agreement with the rectors and giving workshops to the professors. A small group of professors were selected and sent for training in curriculum changes and lecturing ACCA courses. The four-week training was held in England and included the Georgian professors. <b>Completed.</b></p>
<b>Task 3a.) New curriculum.</b>
<p>Status:</p> <ul style="list-style-type: none"> <li>By 7/15/00, recommendations were finalized for detailed curriculum revisions for all undergraduate years and were submitted to the Ministry of Education. <b>Completed.</b> (Note: the Ministry of Education does not require curriculum revisions, as previously thought.)</li> <li>By 8/31/00, the selected educational institutions were equipped with guidelines for the appropriate accounting training materials. <b>Completed.</b></li> <li>By 8/31/00, faculty members were trained in delivering the revised courses for the first-year level of university accounting. This training included the overseas course noted above. <b>Completed.</b></li> <li>By 8/31/00, the complete, revised curricula were ready for implementation by the selected higher education institutions. The revised curricula for ACCA Papers 1 and 3 were prepared and agreed upon. <b>Completed.</b> Further development to include higher-level</li> </ul>

papers was expected by the Ministry of Education, in conjunction with the universities, after 10/31/00.
<b>Task 3b.) Partnership development.</b>
<p>Status:</p> <ul style="list-style-type: none"> <li>• By 9/30/00, partner universities were identified. The Project proposed that partnership activities mirror that of the Georgian Accounting Reform Project and take place with the London School of Accounting, the institute where the professors from Armenia, Georgia, and Azerbaijan visited during August/September 2000. <b>Completed.</b></li> <li>• Originally it was expected that partnerships would be established and at least one faculty exchange completed between the Armenian universities and U.S. partners (in coordination and funding with other USAID contractors). The goal was to have at least one selected faculty member from each of the two selected Armenian educational institutions get short-term training in the United States and that two of their respective U.S. colleagues would visit an Armenian institution to consult on curriculum development and training methodology. Assistance was provided to AED in preparing training plans for a “study tour.” AED/USAID was expected to follow up after 10/31/00. <b>Completed.</b></li> <li>• By 9/30/00, efforts were made to have other donors or projects supply and install basic equipment. <b>Completed.</b> USAID developed a proposal to fund a computer center at the two Armenian universities targeted during this Project. USAID will follow up after 10/31/00.</li> </ul>
<b>Task 4.) To assist the Government of Armenia in adopting IAS and ISA and to advise GoA on other issues concerning its role in accounting and audit reform.</b>
<p>Status:</p> <p>The contractor’s expatriate and local staff provided significant comments and recommendations till the end of the contract to the AAAA during its review of the audit standards, which were developed by the MoF with assistance from the contractor. The AAAA expected to continue after 10/31/00 its review for approving the standards before the standards were sent to the Ministry of Justice for final adoption by the GoA.</p> <ul style="list-style-type: none"> <li>• By 6/15/00, all charts of accounts and implementation guidelines were fully drafted, approved, and implemented by the GoA in order to convert to IAS. The original intention was that by 7/31/00, a plan for simplified accounting rules for small businesses would be discussed with the GoA, USAID/Armenia, and the CTO, pending the outcome of the proposed Small Business Tax Law. This component of the task was not initiated and was removed as a required task.</li> <li>• IAS book income was mandated for OJSCs by December 2000 (with limited companies by December 2001 and CJSCs by December 2002) by the taxing authority as the starting point for calculation of taxable income. The Ministry of Justice accepted a book-to-tax reconciliation form. <b>Completed.</b></li> <li>• By 7/31/00, auditing professional certification/licensing was developed with appropriate GoA recognition. <b>Completed.</b></li> <li>• The original intent was that by 11/30/00 the contractor would ensure procedures were in place for certification and licensing. This was achieved ahead of schedule. <b>Completed.</b></li> <li>• IAS 19 was completed, in conjunction with the MoF, by 10/31/00. <b>Completed.</b></li> <li>• The contractor reviewed and commented on the audit law (or government decree) for adopting and implementing ISA, including the IFAC Code of Ethics. <b>Completed.</b> The AAAA planned to lobby for including the new audit law in Parliament’s agenda before the end of 2000.</li> </ul>

**Task 5.) To improve accounting information awareness and utilization by users of accounting information.**

Status:

The goals of this task were to train users in understanding IAS-based financial information and in using the information for making rational business decisions, as well as to provide training support for other activities funded by USAID/Armenia.

- The original task was to design and deliver courses on cost accounting (managerial accounting). Seven courses were developed and delivered in Yerevan and the regions. **Completed.**
- The transfer to the AAAA of the Sibley-developed process and materials for enterprise conversion (operational and financial transfer of the “Accounting for Non-Accountants” team to the AAAA) was completed on schedule by 6/30/00. **Completed.**
- The “Accounting for Non-Accountants” courses garnered many participants: 128 attended thirty-six, 12-hour courses; 775 attended eighteen 40-hour courses on financial and management accounting; and 125 staff of the Armenian tax inspectorate completed a course for tax inspectors and the Tax Reconciliation Form. **Completed.**

**Task 6.) To develop professional capacity and technical methodologies through pilot implementations.**

Status:

This program was turned over to the private accounting and audit firms. Based upon agreements with USAID/Armenia, the AEAR Project paid local audit firms directly for financial statement conversions. The contractor’s local staff supervised the audit firms’ work and trained additional auditors when needed. Every effort was made to ensure that the local auditors were equipped and understood the importance of delivering the highest quality pre-conversion training course. See details below.

**Task 6a. i.) Conversions and training.**

Status:

- By 5/6/00, approximately 600 enterprises had been converted (410 non-OJSCs and 190 OJSCs), with about 1,200 accountants trained in IAS. The goals of converting an additional 300 OJSCs and training an additional 50 accountants by the end of the contract were exceeded (see below), as a total of 1,056 enterprises were converted (427 non-OJSCs and 629 OJSCs) and 1,854 accountants had been trained in IAS during the contract. **Completed.**
- By 8/31/00, at least 200 additional OJSCs were converted and their accountants trained. **Completed.**
- By 10/31/00, at least another 100 OJSCs were converted and 50 more accountants were trained in IAS. **Completed.** The AAAA assumed management of the conversion activities in February 2000.
- The contractor surveyed randomly selected companies to monitor the conversion process, and 95% reported they had received sufficient technical assistance from the Project. **Completed.**
- A complete conversion manual was updated as necessary and distributed to all conversion-training participants (until 10/13/00). **Completed.**
- The pre-conversion training for accountants included a 40-hour course. The post-conversion training was a three-day, 24-hour course. **Completed.**

<b>Task 6b.) Cost accounting.</b>
<p>Status:</p> <p>A second aspect of the conversion effort was to implement sound product cost-accounting practices at selected enterprises. The intention was to initiate cost accounting into the private sector, with the contractor's local conversion experts interfacing directly with local private audit firms. Four local conversion experts were trained in the process of establishing sound product costing systems, and by 10/13/00, these experts participated in directly assisting and converting 27 enterprises. <b>Completed.</b></p>
<b>Task 7.) Constituency mobilization for accounting reform issues and other economic reform programs.</b>
<p>Status:</p> <ul style="list-style-type: none"> <li>• Seventeen (17) seminars on topics of economic reform were presented to local journalists. <b>Completed.</b></li> <li>• The contractor's communications team developed and aired the "Progress Economic TV Series," which covered the various economic reform projects. Four programs aired on accounting reform; four programs, capital market reform; three programs, land registration and titling; three programs, tax and fiscal reforms; and six programs, privatization. <b>Completed.</b></li> <li>• The contractor's public information team produced a daily media digest, a newsletter, and four brochures. These publications covered news and information on all the economic reform projects in the region. <b>Completed.</b></li> <li>• The contractor trained a communications manager, and the AAAA subsequently hired him for handling internal and external communication issues. The communications manager wrote the AAAA's constitution and designed and published the AAAA's general brochure and a training brochure. He also planned and organized media events, such as the AAAA Opening Ceremony. <b>Completed.</b></li> </ul>
<b>Miscellaneous from Amendment 7 of the Task Order.</b>
<p>Status:</p> <ul style="list-style-type: none"> <li>• The contractor conducted a course for 25 professional employees of the securities commission, stock exchange, and brokerage houses in the use of financial statements for due diligence and oversight. <b>Completed.</b></li> <li>• The contractor conducted a training course for 125 tax inspectors in the use of financial statements for determining taxable income or loss and book-to-tax reconciliation. <b>Completed.</b></li> <li>• The contractor finished all administrative tasks related to the project. <b>Completed.</b></li> <li>• The contractor held a close-out interview with USAID/Armenia. <b>Completed.</b></li> </ul>

## **Appendix B**

### **AAAA Constitution**



## **Appendix C**

### **AAAA Organizational Structure**

## **Appendix D**

### **AAAA Business Plan for 2000 – 2002**

## **Appendix E**

### **Training Materials/Publications**

## Appendix E

### Training Materials/Publications

<b>Title (note 1 + 3)</b>	<b>Language</b>	<b>Availability</b>	<b>Uses</b>	<b>Status</b>
<b>ACCA 1</b> Accounting Framework Textbook and Revision Series	Russian	October 5, 1999	<b>1)</b> Prepares candidates for national certification in Armenia and perhaps other CIS republics. <b>2)</b> University primary or secondary text in Armenia and other CIS republics.	Published
<b>ACCA 2</b> (substitute) Law, Business Legal Entities, Contract by A.G. Vagharshyan	Armenian	Available	<b>1)</b> Prepare candidates for national certification in Armenia. <b>2)</b> University primary or secondary text in Armenia.	Published
<b>ACCA 3</b> Management Information Textbook and Revision Series	Russian		<b>1)</b> Prepares candidates for national certification in Armenia and perhaps other CIS republics. <b>2)</b> University primary or secondary text in Armenia and other CIS republics. <b>3)</b> Portions of text could be used to train enterprise accountants in management accounting.	Published
<b>ACCA 4</b> Organizational Framework Textbook and Revision Series	Russian		<b>1)</b> Prepares candidates for national certification in Armenia and perhaps other CIS republics. <b>2)</b> University primary or secondary text in Armenia and other CIS republics.	Published
<b>ACCA 5</b> Information Analysis Textbook and Revision Series	Russian		<b>1)</b> Prepares candidates for national certification in Armenia and perhaps other CIS republics. <b>2)</b> University primary or secondary text in Armenia and other CIS republics.	Published

<b>Title (note 1 + 3)</b>	<b>Language</b>	<b>Availability</b>	<b>Uses</b>	<b>Status</b>
<b>ACCA 6</b> Audit Framework Textbook and Revision Series	Russian		1) Prepares candidates for national certification in Armenia and perhaps other CIS republics. 2) University primary or secondary text in Armenia and other CIS republics.	Published
<b>ACCA 7</b> (substitute) Introduction to Armenian Taxation, by Vladimir Hayrapetyan and Marina Gevorgyan	Armenian		1) Prepare candidates for national (and maybe international) certification in Armenia. 2) University primary or secondary text in Armenia.	Published
<b>ACCA 8</b> Managerial Finance Textbook and Revision Series	Russian		1) Prepares candidates for national certification in Armenia and perhaps other CIS republics. 2) University primary or secondary text in Armenia and other CIS republics.	Translated, not published yet
<b>ACCA 9</b> Information for Control and Decision Making	Russian		1) Prepares candidates for national certification in Armenia and perhaps other CIS republics. 2) University primary or secondary text in Armenia and other CIS republics	Translated, not published yet
<b>ACCA 10</b> Accounting and Audit Practice	Russian	April 15, 2000	1) Prepares candidates for national certification in Armenia and perhaps other CIS republics. 2) University primary or secondary text in Armenia and other CIS republics.	
<b>ACCA 12</b> Management and Strategy	Russian	April 15, 2000	1) Prepares candidates for national certification in Armenia and perhaps other CIS republics. 2) University primary or secondary text in Armenia and other CIS republics.	

<b>Title (note 1 + 3)</b>	<b>Language</b>	<b>Availability</b>	<b>Uses</b>	<b>Status</b>
Accounting for Non-accountants: A Workbook, by Robert W. McGee	Armenian and Russian		<b>1)</b> Stand-alone course, two-day seminar in Armenia and other CIS republics. <b>2)</b> Supplementary text for a seminar on How to Prepare and Read Financial Statements.	Published
An Introduction to Armenian Accounting Standards, devised and produced by Karen Kalishek, edited by Duncan Williamson	Armenian		<b>1)</b> Primary materials for Enterprise Accountants Course in Armenia. <b>2)</b> Primary or supplementary university text in Armenia. <b>3)</b> Stand-alone text for Armenian accountants.	Translated, not published yet
International Accounting Standards: A Guide to Preparing Accounts, by Georgette T. Bailey and Ken Wild	Armenian		<b>1)</b> Stand-alone text for Armenian accountants. <b>2)</b> Supplementary text for Enterprise Accountant Course in Armenia. <b>3)</b> Supplementary text for several ACCA courses, especially ACCA 10. <b>4)</b> Supplement for university course in Armenia. <b>5)</b> Supplementary text for Conversion Methodology Course.	Published
Armenian-English, English-Armenian Terminology Dictionary for Accounting and Business, by Robert W. McGee, Hayk Khachatryan, Hayk Vardapetyan and Armen Khachatryan	Armenian and English	December 31, 1999	<b>1)</b> Stand-alone text for Armenian accountants. <b>2)</b> Supplementary text for several ACCA courses. <b>3)</b> Supplementary reference for university students and professors in Armenia, bankers, etc. <b>4)</b> Supplementary text for the Enterprise Accountants Course.	Edited, not published

<b>Title (note 1 + 3)</b>	<b>Language</b>	<b>Availability</b>	<b>Uses</b>	<b>Status</b>
Armenian Accounting Standards, Ministry of Finance	Armenian/ English		<b>1)</b> Stand-alone text for Armenian accountants. <b>2)</b> Supplementary text for Enterprise Accountants Course. <b>3)</b> Supplementary text for university courses. <b>4)</b> Supplementary text for Conversion Methodology Course.	Published
Conversion Methodology and Application of the New Armenian Accounting Standards, by Susan Fenno and Duncan Williamson	Armenian/ English		<b>1)</b> Primary text for Conversion Methodology Course. <b>2)</b> University text	
Noah's Brewery, an Audit Case Study, by Wayne West and Anna Hovhannisyan	Armenian/ English, perhaps Russian		<b>1)</b> A practical case study based loosely upon the "Apple Blossom" case study. A practical guide to completing an audit.	
Armenian Chart of Accounts	Armenian/ English			Armenian version is published.
<b>ACCA 2</b> (substitute) Law, Business Legal Entities, Contract, by A.G. Vagarshyan	To be translated into English for revision by ACCA			Published

**Note 1:** A.T. Foulks Lynch has given the Association of Accountants and Auditors of Armenia (AAAA) permission to translate and publish its ACCA Professional Series, IAS/ISA stream training materials (Russian version) for use in CIS republics, except Ukraine and Russia.

**Note 2:** The AAAA will sell these training materials to other USAID programs in CIS republics, except Ukraine and Russia, at its cost, which is about half the cost of the English language versions of the same training material. We are suggesting a 10% - 25% discount on all training materials for AAAA members.

**Note 3:** All ACCA training materials include both the text and revision book.

**Note 4:** Some books have multiple uses. For example, the Dictionary could be used as a reference for all of the ACCA Russian texts. The IFAC Handbook could be used as a supplement to the ACCA 6 Audit Framework course or the more advanced ACCA 10 course. The Role of Financial and Managerial Accounting could be used as a supplement to Accounting for Non-accountants and also for the ACCA Accounting Framework English and Russian texts. An Introduction to Taxation and Public Finance could be used as a stand-alone university text as well as a supplement to the ACCA Armenian (and Russian) tax courses throughout the CIS.



## **Appendix F**

### **Curriculum Reform Implementation Understanding**

## **Appendix G**

### **Integration of ACCA Papers Into Armenian Degree Programs**

## **Appendix H**

### **Summary of Financial Conversions**

## **Appendix H**

### **Summary of Financial Conversions**

The following pages list the various Armenian enterprises that underwent financial conversions to International Accounting Standards (IAS) during the Armenia Enterprise Accounting Reform (AEAR) Project. The list also contains enterprises that registered to participate but did not attend the necessary training and those enterprises whose conversion was “in process” when the contract ended in October 2000.

The Project helped convert a wide breadth of enterprises in terms of their legal status, number of employees, and the types of companies. The economic sectors affected include, among others, agribusiness, the food industry, retail, manufacturing, education, the media, service, and trade. The diverse nature of the enterprises ranges from bakeries and pharmacies to pig breeders and fish canneries, from toy and bicycle manufacturers to high-tech producers and financial brokers, from wineries and catering businesses to mining and construction industries.

#### **Key to Terms in the Chart**

NS = Enterprises that registered to participate for conversion, but did “not show.”

IP = Conversions that were “in process” at the end of the contract.

d/e = “Daughter enterprise.” The Armenian use of this term has a separate legal status that is different from the usual international definition. For example, the enterprise might have a legal status of a “d/e,” but it does not have a parent company.

**See Excel file for Appendix H**

## **Appendix I**

### **Economic Seminar Series for Journalists**

## Appendix I

### Economic Seminar Series for Journalists

Date	Topic	Presenter
1. September 14, 1998	Key to Successful Transition To Market Economy	Walter Coles USAID Senior Advisor on Economic Reforms in the CIS, Washington, D.C., U.S.
2. October 5, 1998	Role of Capital Markets—Source for International Investments and, More Importantly, Resource for Mobilization of Domestic Investment	Don Hart, Chief of Party, USAID Capital Markets Project, PriceWaterhouseCoopers
3. October 19, 1998	Privatization—More Efficient and Productive Utilization of State-Owned Enterprises	Mike McWherter, Chief of Party, USAID Privatization Project, IBTCI
4. November 4, 1998	Land Reform—Corner-Stone of Market Reforms	Richard Shepherd, Chief of Party, USAID Land Reform Project, RONCO
5. November 16, 1998	How Much is it Worth? Getting Numbers Right. Accounting—Nuts and Bolts Of Market Economy	Wayne West, Chief of Party, USAID Accounting Reform Project, SIBLEY International
6. December 14, 1998	Collecting More, Collecting More Fairly	Bill Gardner, Chief of Party, USAID Tax and Fiscal Reform Project, Barents Group
7. December 21, 1998	Tax Reforms	Terry Murdoch USAID Tax and Fiscal Reform, Barents Group
8. January 18, 1999	Budget Processes in Armenia	Leonard Sweeney, Resident Advisor for Budget and Financial Management, Department of U.S. Treasury

9. February 1, 1999	New “Civil Code” in Regulating Economic Relations	Anna Tarassova, Senior Legal Advisor, IRIS at the University of Maryland
10. February 15, 1999	Armenia’s Accession Process To World Trade Organization	Andre Wagner, Chief Advisor, WTO Implementation Project
11. March 1, 1999	Goals and Operations of Republic of Armenia (RoA) Central Bank	Nerses Yeritsyan, Board Member, RoA Central Bank
12. March 15, 1999	Positive Consequences of Foreign Investments	Gagik Yeghiazaryan, Executive Director, Development Agency of Armenia, Secretary of the State Council for Promotion and Protection of Investments
13. April 5, 1999	New Economic Terms and New Language	Alexander Aghabekyan, Author of the English-Armenian Dictionary of Business and Economic Terms
14. April 19, 1999	Energy Sector Reform and Privatization	Felix Tadevosyan, RoA Ministry of Energy
15. May 3, 1999	SME Loan Programs provided by Lincy Foundation, Eurasia Fund, USDA, World Bank, and UMCOR	Alexander Frunjyan, Deputy Executive Director, Lend Bank
16. May 17, 1999	Ownership Rights to Real Estate and Relevant Legislation	Hasmik Hakobyan, Senior Attorney, USAID Land Reform Project, RONCO
17. May 31, 1999	Armenian Treasury Direct to You: Buying Securities	Arshaluys Margaryan, Head of the Domestic Debt Division, RoA Ministry of Finance and Economy



## **Appendix J**

### **Discussion Papers: The Legal Regulation of Auditing in the Republic of Armenia**

**End of Appendices  
For Final Report**

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**Armenia Enterprise Accounting Reform**